

SASKATCHEWAN POWER CORPORATION

1986 Annual Report



people working for you.

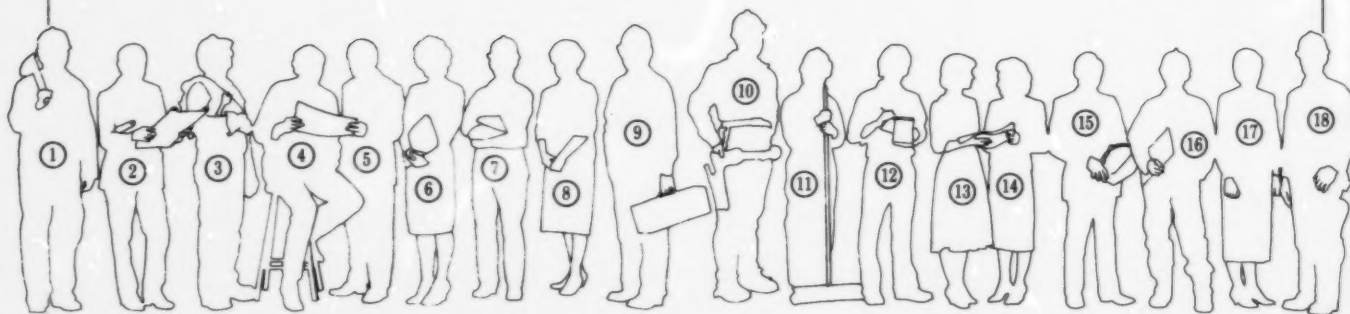
People working for you

Around the clock and around the province, SaskPower people are working to meet the energy needs of Saskatchewan residents.

Employees bring to their jobs a wide range of skills and talents to fulfil the corporation's responsibility to serve its customers.

Whether they work in a natural gas compressor station, power station, district office, or behind the scenes, SaskPower people meet customers' energy needs 24 hours a day through all types of weather.

They are people working for you.



On the cover

- | | | |
|--|--|--|
| (1) Randy Balzer, mechanic operator - Prud'homme; | (7) Dana Barlow, steam station charge engineer - Estevan; | (13) Linda Horbach, district clerk cashier - Wilkie; |
| (2) Navel Tauh, design engineer - Regina; | (8) Bev Wilson, district clerk II - Saskatoon; | (14) Brenda Morris, marketing co-ordinator (residential) - Regina; |
| (3) Braithie Breadner, assistant service and maintenance operator - Prince Albert; | (9) Garry Lang, district gas serviceman - Fort Qu'Appelle; | (15) Larry Brandt, manager, Public Safety - Regina; |
| (4) Wayne Thompson, system operator - Regina; | (10) Tom Corbett, journeyman lineman - Moose Jaw; | (16) Mike Taschuk, compressor station operator - Success; |
| (5) Doug Hincks, assistant dispatch superintendent - Regina; | (11) Mary Andruschak, utility person I - Estevan; | (17) Dianne Phillips, private secretary - Regina; |
| (6) Donna Hunter, district clerk I - Prince Albert; | (12) Dave Wilson, meter reader - Grenfell; | (18) Doug Scammell, district operator - North Battleford. |

Saskatchewan Power Corporation

2025 Victoria Avenue
Regina, Saskatchewan
S4P 0S1



Letter of transmittal

Regina
March 1987

To His Honour
F.W. Johnson
Lieutenant Governor
of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 1986 including the financial statements for the year duly audited by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with The Power Corporation Act.

I wish to recognize the services of Mr. E. Bruce Campbell, who retired as President of the Saskatchewan Power Corporation in January 1987. Mr. Campbell made many invaluable contributions to the corporation during his 37-year career.

I have the honour to be, Sir,
Your obedient servant,

Eric A. Berntson,
Minister Responsible
Saskatchewan Power Corporation

1986 corporate highlights

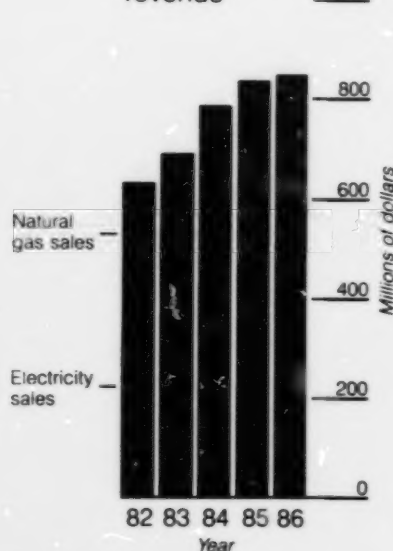
Financial	1986	1985
	(\$ millions)	
Revenue	847	837
Net income (loss)	(10)	1
Cash from operations available for debt servicing and capital expenditures	406	303
Capital expenditures	270	303

- Under the Rural Underground Distribution program, electric cable was ploughed in to connect more than 800 farm customers. This was the second year of a 20-year program to replace 108 000 km of single-wire overhead power lines with a new underground system.

- The Saskatchewan Natural Gas Distribution Program extended natural gas service to more than 6 500 customers on farms and in small communities.
- The 252-MW Nipawin Hydroelectric Station was officially commissioned on September 13.
- Hydroelectric production increased by 95 per cent over 1985, and accounted for 32 per cent of the province's total electrical requirements.

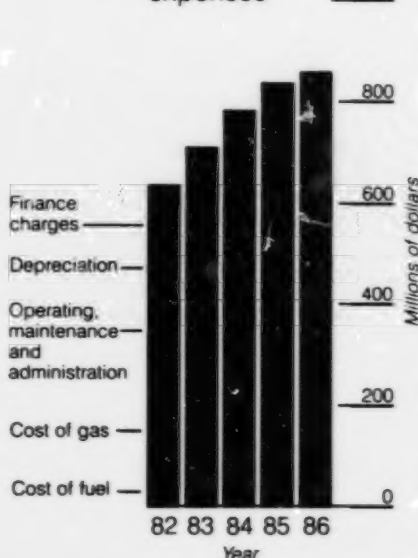
- Saskatchewan gas fields provided 65 per cent of the province's natural gas requirements, compared to 51 per cent in 1985.
- Saskatchewan residents purchased more than \$85 million of the third issue of Saskatchewan Power Corporation Savings Bonds.
- Saskatchewan Power Corporation and North-Sask Electric Ltd. began a two-year program to improve electrical service to northern Saskatchewan and replace diesel generators with less costly grid service.

Consolidated revenue



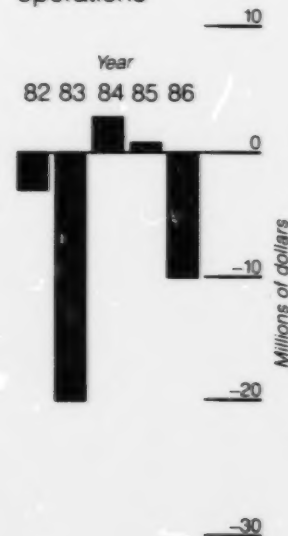
The modest growth in consolidated revenue in 1986 reflects a decline in gas revenues resulting from lower consumption and a rebate ordered by PURC.

Consolidated expenses



In 1986, consolidated expenses were held to a modest increase. The increase in finance costs and depreciation was largely offset by reductions in fuel costs.

Consolidated income (loss) from operations



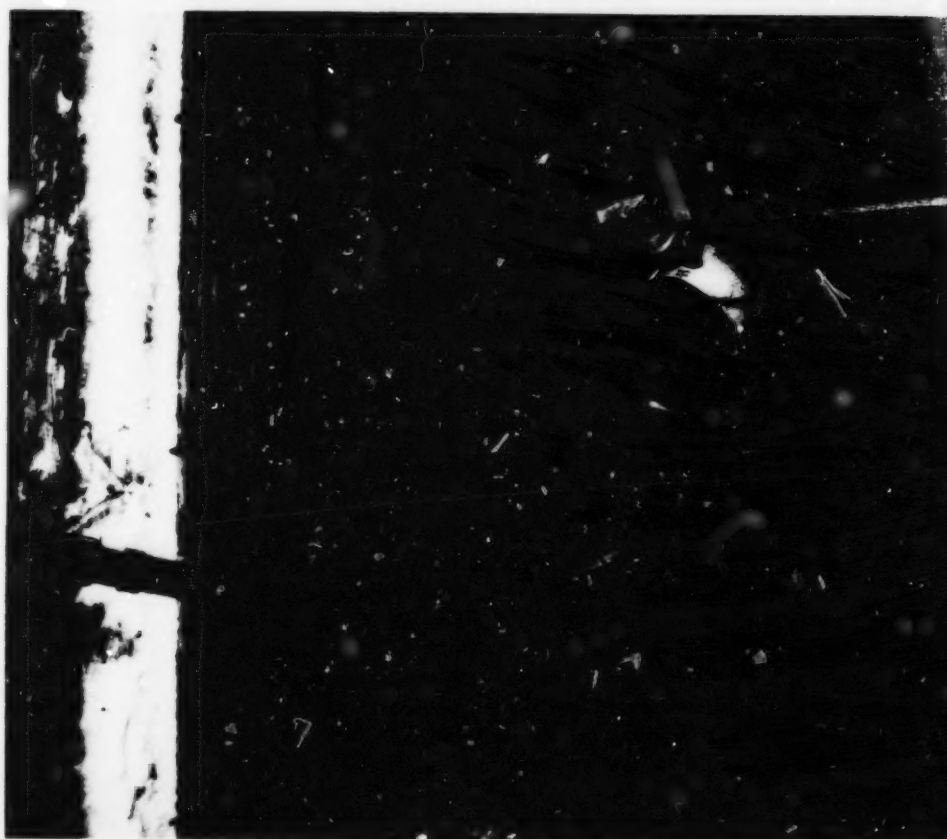
The corporation recorded a loss in 1986 after modest profits in the previous two years. However, the loss was much smaller than originally anticipated as favorable river flows increased hydro generation and savings were realized from continuing restraint in both capital and operating expenditures.

The business of SaskPower

Established in 1949, the Saskatchewan Power Corporation (SaskPower) provides natural gas and electricity to the residents of Saskatchewan. The corporation generates and delivers electricity to 402 000 customers and supplies natural gas to 272 000 customers.

SaskPower's primary objective is to meet the energy needs of Saskatchewan residents in an economical, safe, reliable, efficient and environmentally responsible manner. This service is to be provided at rates that cover all costs and contribute to the short- and long-term financial health and viability of the corporation. Rates for natural gas and electricity are subject to review and approval by the Public Utilities Review Commission (PURC).

SaskPower's board of directors at present consists of a chairman, vice-chairman and 10 other directors. Board members are appointed by the provincial government and represent a broad spectrum of Saskatchewan residents.



Barry Taylor, assistant district operator in Melfort, repairs a line to restore normal electrical service.



Cathy Romanow, district clerk in Regina, handles an inquiry from customer E. West.

Letter from the Chairman and the President

Donald Stankov

SaskPower experienced a consolidated net loss of \$10 million during 1986. A loss of \$19 million in the electrical utility was partly offset by a net income of \$9 million for the gas utility. The corporation's financial condition remains unsatisfactory due to inadequate earnings and a heavy debt burden. However, significant efforts in 1986 were successful at beginning a financial recovery program.

The corporation's objective is to achieve a level of financial performance that will generate sufficient cash flow to meet our obligations. Sufficient revenue should be available to

pay ongoing operating costs, make interest payments, retire debt in an orderly manner, and provide funds for a reasonable portion of our annual capital expenditure program. To achieve this objective, key long-term financial targets were adopted, including an interest coverage ratio of 1.3 for the electrical utility and 1.2 for the gas utility and a corporate debt-to-equity ratio of 80:20.

Early in the year, the corporation announced a three-year recovery program designed to absorb the financial impact of the Nipawin hydroelectric project and to improve the financial health of the corporation. The recovery program called for annual electrical rate increases of approximately 7.5 per cent in 1986, 1987, and 1988 with the objective of achieving a break-even situation on a corporate basis in 1987. The electrical utility is expected to break even in 1988.

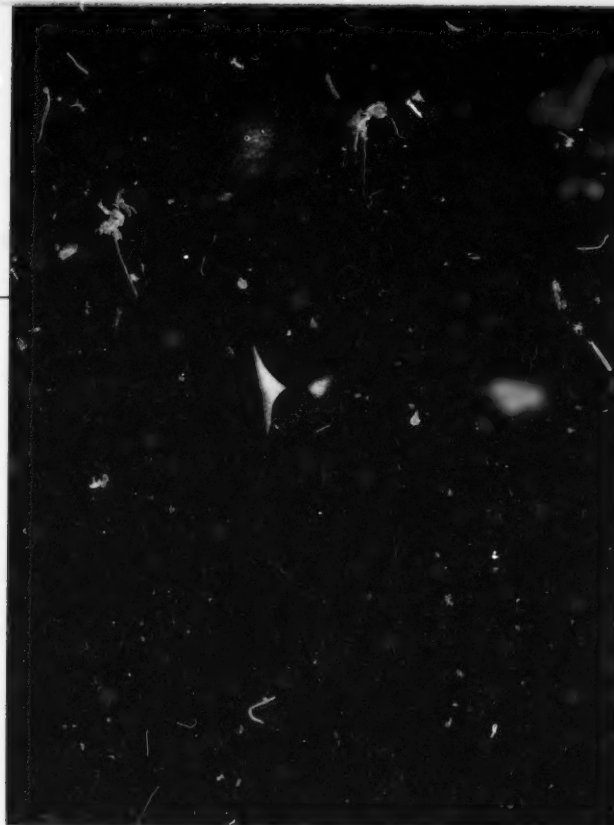
The first of the electrical rate increases was implemented in March 1986. Early in 1987, PURC authorized increases of 9.5 per cent for residential customers, 8.5 per cent for

farm customers, and 7.0 per cent for all other customers with the exception of oil field customers, who did not receive an increase. The rates were effective February 1, 1987. This was in response to SaskPower's application for an across-the-board increase of 7.5 per cent, applied equally to all customer classes.

In the spring of 1987, an application will be made for a 1988 electrical rate increase.

Corporate performance in 1986 was better than forecast. The improvement was primarily the result of close control of operating, maintenance, and administration expenditures; higher than normal river flows at our hydroelectric stations; and lower than anticipated finance costs. The improvement occurred despite a 10-per-cent reduction in natural gas revenue from the level of 1985, including a PURC-ordered rebate of \$3.7 million to industrial gas customers.

The regulated border price for natural gas leaving Alberta was eliminated effective November 1, 1986. This was the result of an October 1985 agreement between the provinces that produce natural gas and the



E. Bruce Campbell

Government of Canada. The regulated price is replaced by a market-sensitive, negotiated pricing system.

Before year end, SaskPower had renegotiated the price for natural gas delivered to it by TransCanada PipeLines Limited. Negotiations with individual producers in Alberta and Saskatchewan were under way at year end. The lower prices resulting from these negotiations will permit the corporation to reduce natural gas rates to selected customer classes in 1987.

Natural gas consumption in Saskatchewan declined by 11 per cent from the 1985 level to 2.7 billion cubic metres. This was primarily attributable to reduced consumption by industrial customers and weather that was 11 per cent warmer than normal. Electrical consumption by customers increased by 1.9 per cent over 1985 to a record of 10.4 billion kilowatt hours. Growth over the last five years has averaged 4.4 per cent per year.

The Nipawin Hydroelectric Station was officially commissioned by Premier Grant Devine on September

13, 1986. Some 3 500 people attended the ceremony. Premier Devine called the station a significant step forward for SaskPower and a building block for the future growth of the province. The Nipawin station was the largest capital project ever undertaken by the corporation. It was completed on time and \$15 million under the budget of \$550 million.

The third issue of Saskatchewan Power Corporation Savings Bonds was enthusiastically received. Saskatchewan residents purchased more than \$85 million of these bonds. The total of savings bonds outstanding at year end was \$223 million. Savings bonds have become a significant source of capital for the corporation while providing a secure investment for Saskatchewan investors at competitive interest rates.

We appreciate the encouragement and guidance provided by the Board of Directors during the year. The Directors appointed Mr. George D. Hill, QC as President of the corporation effective January 5, 1987. Mr. Hill replaced Mr. E. Bruce Campbell, P.Eng. who had been President since 1983.

This year's annual report emphasizes the theme "People Working for You." SaskPower consists of some 3 100 people who use their many diverse and specialized skills to serve our customers. We acknowledge with sincere thanks the dedication and the contribution of all employees.

Donald Stankov, CA
Chairman of the Board

E. B. Campbell, P.Eng.
President

Year in review

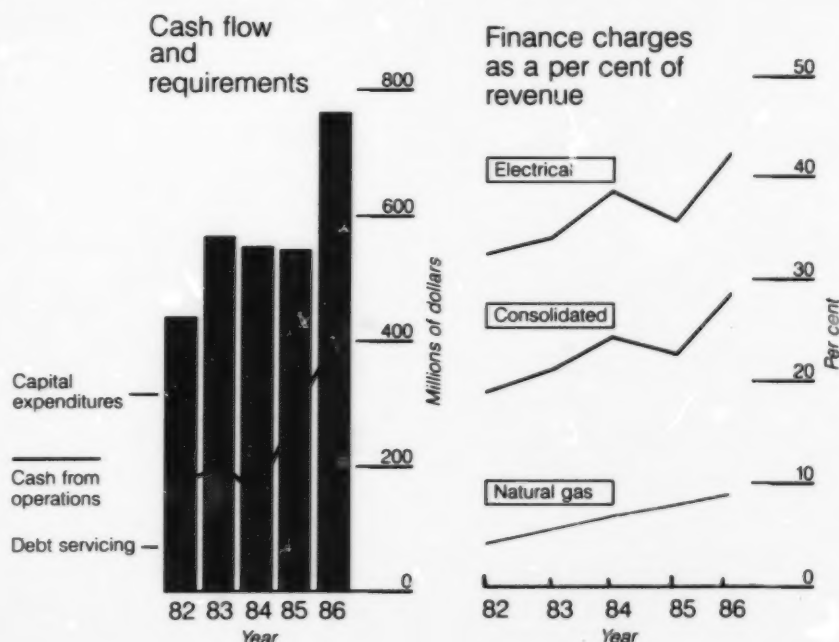
Electrical and natural gas earnings

Saskatchewan Power Corporation recorded a consolidated net loss of \$10 million in 1986, which was lower than had been forecast. An electrical rate increase, lower fuel and natural gas costs and restraint measures helped cushion higher interest and depreciation costs and the adverse impact of lower gas consumption and the gas rebate ordered by PURC.

The electrical utility's financial results were better than anticipated. The loss was held to \$19 million, compared to \$22 million in 1985. This occurred despite an increase of \$59 million in depreciation and finance charges, which largely resulted from completion of the Nipawin project. The higher costs were offset by a 7.5 per cent rate increase effective March 1, 1986 and sharply reduced fuel costs due to increased hydro generation. Hydro generation almost doubled because of high river flows and the availability of the Nipawin station.

The gas utility's earnings declined very sharply to \$9 million, compared to \$23 million in 1985. Gas revenue was down as a result of warmer weather, lower industrial consumption, and a \$3.7 million rebate to industrial customers ordered by PURC.

Power poles are silhouetted against a Saskatchewan sunset.



Although cash generated from operations improved substantially in 1986, it was insufficient to cover debt servicing requirements due to unusually large debt maturities.

The increase in finance charges as a per cent of revenue in 1986 reflects lower interest capitalization due to the commissioning of the Nipawin Hydroelectric Station. The implementation of the three-year recovery program will reduce this ratio.

Interest coverage ratio (U.S. Security and Exchange Commission Method)

	1982	1983	1984	1985	1986
Electrical utility	0.80	0.84	0.87	0.91	0.92
Gas utility	2.30	1.33	1.99	1.61	1.29
Consolidated	0.98	0.91	1.01	1.00	0.97

Consolidated interest coverage declined below break-even, due entirely to lower earnings in the gas utility.

Capital expenditures and financing

Capital expenditures for the year were \$270 million compared to \$303 million in 1985. More than half of these expenditures were required for new customer connections and distribution system improvements. About \$61 million was spent on the Saskatchewan Natural Gas Distribution Program, \$42 million to replace portions of the rural electrical distribution system, and \$47 million to connect other new gas and electrical customers.

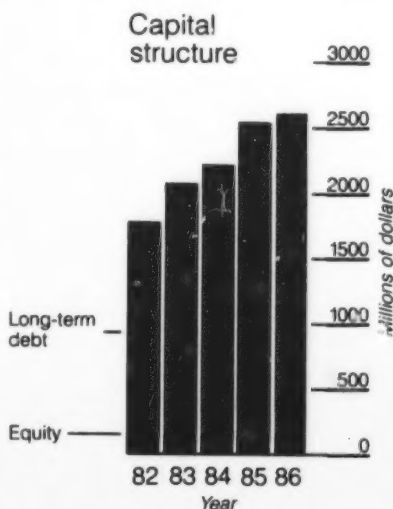
Cash generated from operations available for debt servicing and capital expenditures totalled \$406 million, compared to \$303 million in 1985. However, this improved level of cash generation was insufficient to cover debt servicing requirements due to unusually large debt maturities during 1986.

The corporation obtained \$317 million in external financing to cover the debt servicing deficiency and to fund the capital expenditure program.

The overall debt-to-equity ratio remained unchanged from last year at 87:13. The overall interest coverage ratio fell below 1.0 for the year due to insufficient corporate earnings to cover present levels of interest expense.



SaskPower people work to keep the lights and heat on in cities, towns and farms throughout Saskatchewan.



Capital structure (per cent debt)

	1982	1983	1984	1985	1986
Electrical utility	90	93	95	96	97
Gas utility	54	58	56	55	55
Consolidated	82	86	86	87	87

The corporation experienced no significant erosion in its capital structure in 1986 due mainly to better than anticipated performance by the electrical utility. The debt-to-equity ratio will gradually reduce to 80:20 as the financial health of the electrical utility is restored.

Working to deliver economical energy



Hydro station operators Walter Ariko (foreground) and (background from left) Barry Gray, Grant Berge and Brian Bilec test water in the drainage tunnel at the Nipawin Hydroelectric Station.

Electrical generation

SaskPower uses two main energy sources to generate electricity. Saskatchewan lignite coal supplied 67 per cent of the electricity required in 1986. Hydroelectric energy gener-

ated at our four main hydro stations supplied 32 per cent of the total requirement. The remaining one per cent was supplied by burning natural gas, importing electricity from Man-

itoba and North Dakota, and running diesel plants in northern Saskatchewan.

Optimizing electrical generation

In weighing the cost of producing electrical energy, both the capital costs of constructing a power station and the operational costs must be considered.

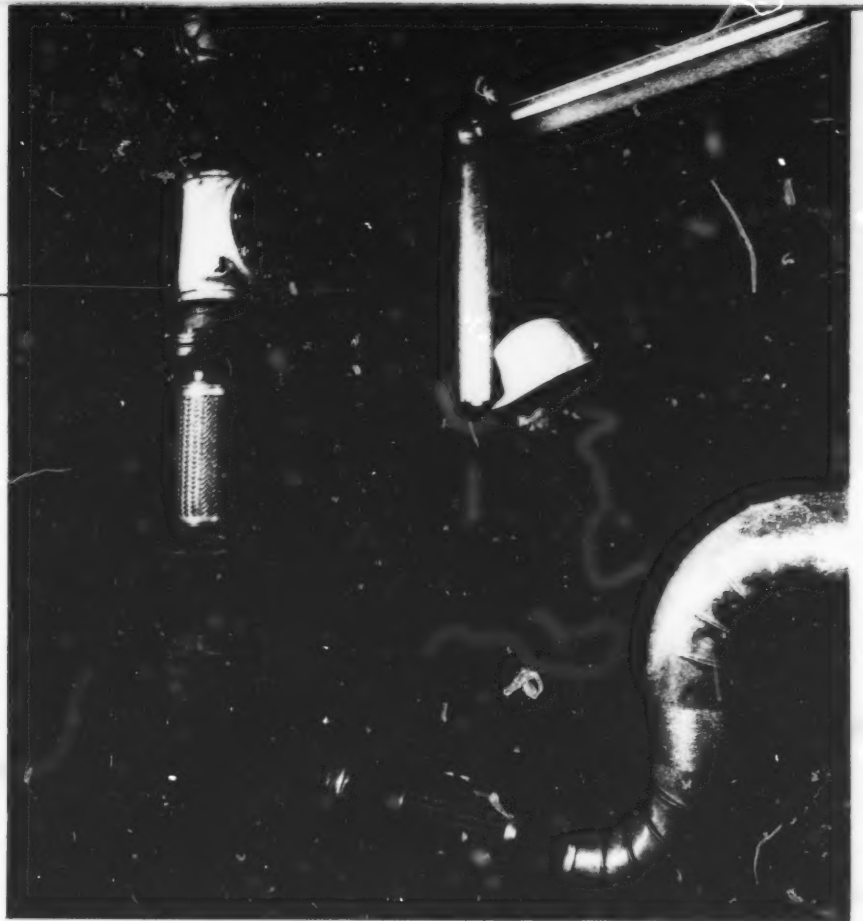
Once a power station has been constructed, the costs of owning it are generally fixed for the life of the plant. The variable costs are those which vary with the amount of electricity generated. These costs are primarily fuel, water rental and maintenance. SaskPower minimizes its operating costs by producing as much electricity as possible using sources with the lowest variable costs.

Of all sources, hydro energy has the lowest variable costs. SaskPower therefore uses hydro energy whenever possible instead of using higher-cost thermal generation and imported electricity.

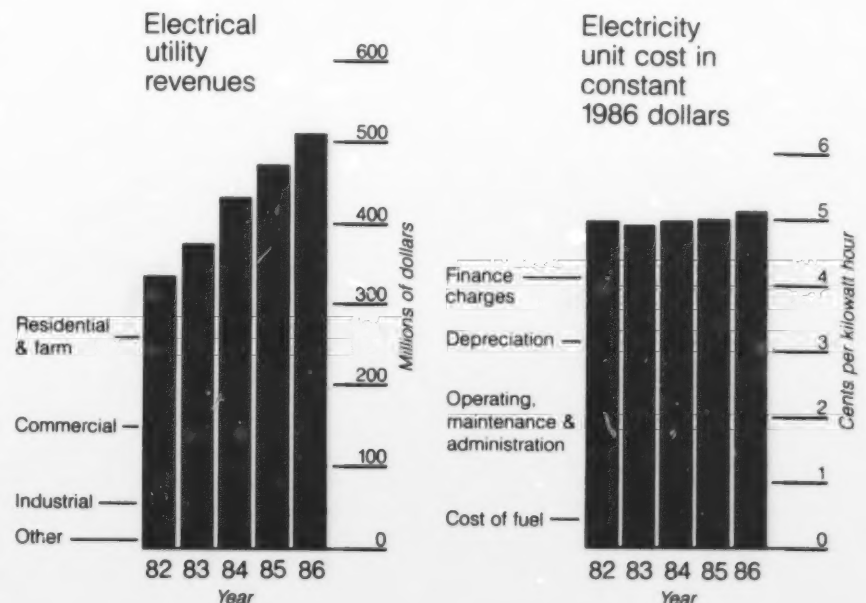
However, in a year when river flows are normal, there is only enough water to operate our three hydro stations on the Saskatchewan River system at full load about 45 per cent of the time. The Churchill River usually supplies enough water to run the Island Falls station at full load for most of the year.

The least expensive fuel is lignite coal, which is burned at the Boundary Dam, Estevan and Poplar River power stations.

The price of imported electricity depends on the supply and demand for energy among the utilities with which SaskPower is interconnected. The price of imported energy normally falls between the cost of energy generated by lignite coal and natural gas.

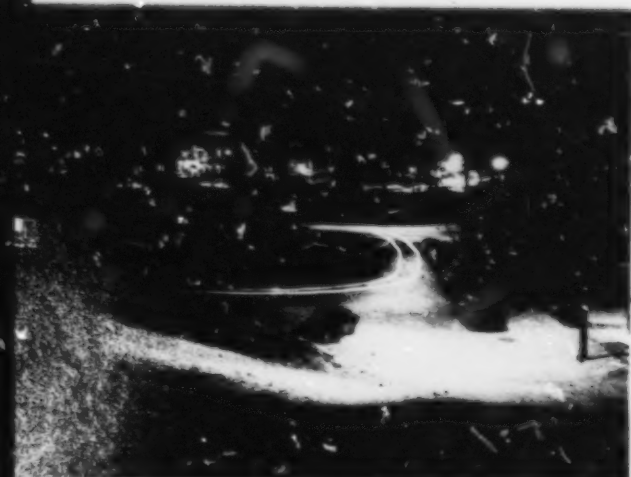


Rhonda Dzuba is a utility person at the coal-burning Poplar River Power Station. Lignite coal produced 67 per cent of the province's electricity in 1986.



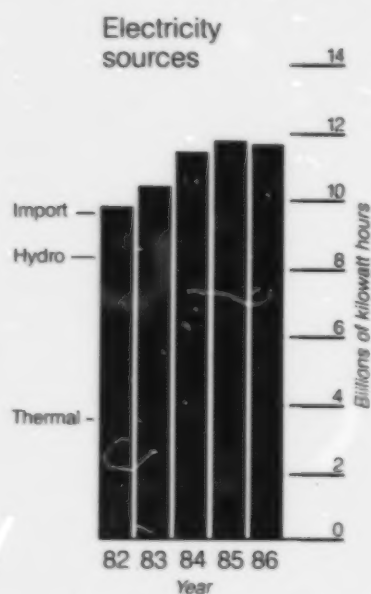
Growth in electrical revenues in 1986 was due primarily to rate increases and a modest growth in electrical consumption.

Electricity unit costs in constant dollars have been relatively stable during the five-year period. Declining operation, maintenance and administration and fuel costs have been offset by rising finance charges and depreciation costs.



1986 Generation Statistics

In Lumsden and throughout Saskatchewan, people turn on lights, assured of a steady supply of electricity.



Increased river flows and the Nipawin Hydroelectric Station contributed to increased hydro generation.

	1986 Rated Generating Capacity (Gross kilowatts)	1986 Gross Generation (kWh x 10 ⁶)	1986 Gross Generation % Increase (Decrease) From 1985
Hydro			
Squaw Rapids	288 000	1 105 810	53.3
Nipawin*	255 000	1 109 099	N/A
Coteau Creek	186 000	779 718	114.1
Island Falls	95 000	786 413	2.8
Wellington†	5 000	2 011	N/A
Total Hydro	829 000	3 783 051	94.7
Steam			
Boundary Dam	675 000	4 396 490	(17.1)
Estevan	65 000	73 439	(55.9)
Poplar River	592 000	3 968 400	(13.0)
Queen Elizabeth	232 000	21 684	(91.0)
Total Steam	1 764 000	8 460 013	(17.6)
Gas turbine			
Landis	60 000	5 215	(63.9)
Meadow Lake	46 000	1 297	(95.9)
Success	30 000	99	(82.4)
Total Gas Turbine	136 000	6 611	(85.9)
Total Generation		12 249 675	(0.1)
Less Station Service		708 731	(11.0)
Net Generated		11 540 944	0.7
Net Imported		66 208	(77.0)
Net Generation Plus Import		11 607 152	(0.2)
Northern Diesel Plants	6 150	10 482	52.8
Northern Purchases		7 945	(20.1)
Total capacity	2 735 150		
Total delivered to system		11 625 579	(1.2)
Less losses & unaccounted for		1 259 879	(21.1)
Energy sold		10 365 700	1.9
Annual Peak Load (Net)	2 077 000		

* 1986 was the first full year of operation.

† Wellington Hydro Station was acquired in September 1986.



Stored water at the Nipawin Hydroelectric Station is released to accommodate approaching flood water on the Saskatchewan River system. Floods were caused by heavy rains in Alberta in July.

Demand varies

The demand for electricity varies on a daily and seasonal basis. Daily peak loads generally occur at mid-day and just before 6 p.m. The demand drops during the night, and increases in the morning. On an annual basis, the demand is lowest in the spring and fall, somewhat higher in summer, and highest in winter.

The provincial grid system ensures that electricity will be available whenever customers require it. Operation of the grid is managed and dispatched, 24 hours a day, from the System Control Centre located near Regina.

The Island Falls station and the lignite plants are capable of supplying most of the system's energy needs during low- and medium-demand periods. Additional generation is provided by the remaining hydro and gas-burning stations to meet the daily and seasonal peak demands.

Using water wisely

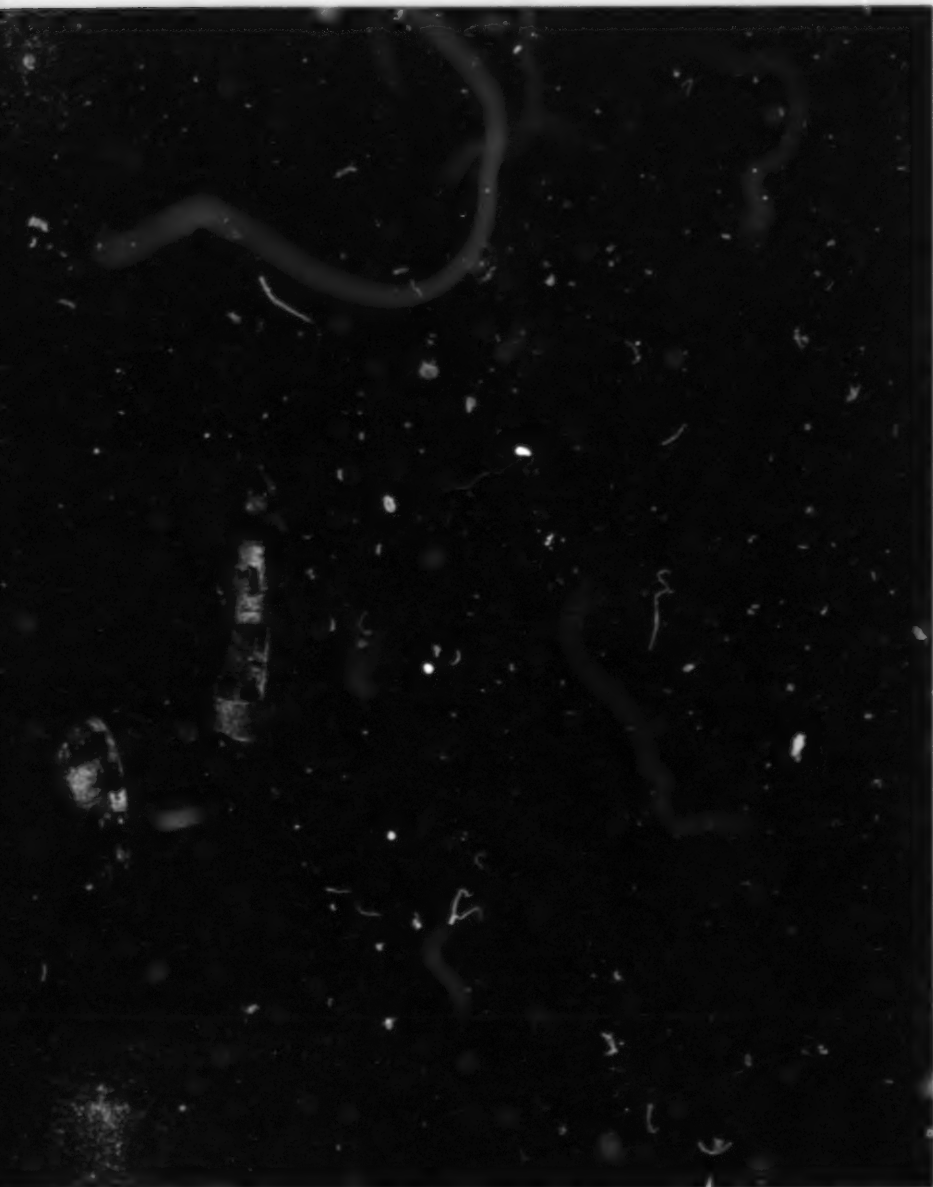
Water is stored in reservoirs of our hydroelectric stations on the South Saskatchewan River and Saskatchewan River during the summer months when demand is low. During the peak winter season, this stored water is used to generate electricity.

The Nipawin Hydroelectric Station was completed in 1986 at an opportune time for the corporation. During the year, the Saskatchewan River flow at Nipawin was 110 per cent of median.

In July, an abnormally heavy rainfall in the North Saskatchewan River basin in Alberta caused flood conditions in both Alberta and Saskatchewan. To reduce the impact of the flood, SaskPower began to release water from its hydroelectric station reservoirs, Codette Lake and Tobin Lake, before the flood waters reached Nipawin.

The Saskatchewan Water Corporation granted permission for SaskPower to lower the level of Codette Lake below the licensed minimum supply level, to provide additional storage for the oncoming flood-water. As a result, Cumberland House, downstream from Squaw Rapids, was protected from the effect of the flood.

Working to meet future energy needs

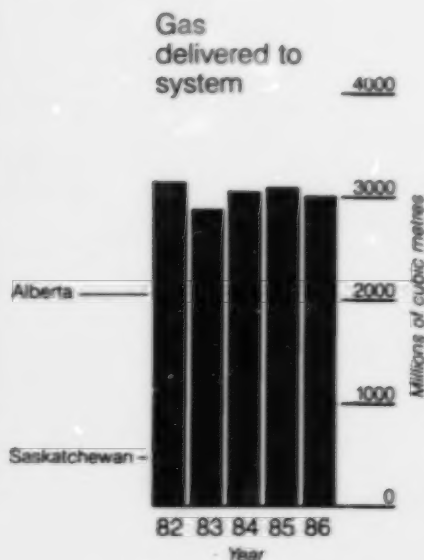


When the temperature drops, customers need more natural gas. Lorne Willson, mechanic operator, adjusts the flow at the Regina gas storage cavern to meet increased demand.

Natural gas storage

A new remote-control system was installed in December at the Melville Storage Cavern, making it SaskPower's most automated storage facility. Staff in the Gas Control Centre in Regina can also remotely monitor and control the flow of gas from other storage caverns and gas fields.

Solution mining continued at two new gas storage caverns near Prud'homme. The mining began in August 1985 using a new automated system. The new caverns will store natural gas to meet peak demands beginning with the 1987/88 winter heating season.



The percentage of natural gas from Saskatchewan sources is steadily increasing.

New gas supplies

In 1986, we obtained 65 per cent of the province's natural gas requirements from Saskatchewan sources. The corporation signed five new gas-supply contracts with Saskatchewan producers. These contracts provide for the delivery of 88 million cubic metres of new Saskatchewan gas annually.

SaskPower and private sector companies worked together to develop natural gas rights held by the corporation. SaskPower invested \$2.2 million to participate in activities which included drilling 15 new wells

in Saskatchewan and 11 in Alberta. SaskPower's average working interest was 43 per cent.

Through this joint-venture development activity, the corporation added an estimated 366 million cubic metres of proven reserves to its inventory of natural gas.

SaskPower owned or had under contract 57 928 million cubic metres at the end of 1986, compared to 60 048 million cubic metres last year. The reserves equal a 21-year supply at the 1986 consumption rate.

Gas Supply Sources

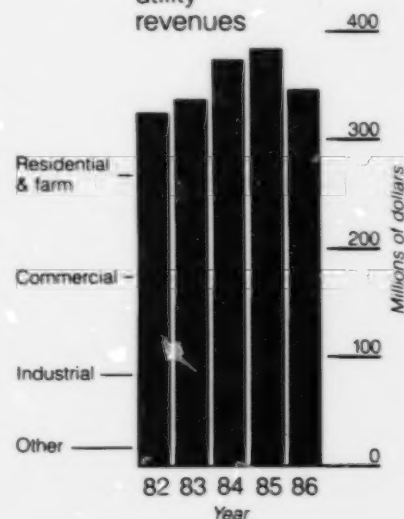
(millions of cubic metres)

Sources	1986	1985	% Increase (Decrease)
Alberta			
TCPL†	619	780	
Field suppliers	347	357	
MIPL(C)L* production	351	455	
Less Alberta sales	(179)	(247)	
Total Alberta production delivered to Saskatchewan	1 138	1 345	(15.4)
Saskatchewan			
Field suppliers	1 589	1 385	
SaskPower production	97	116	
Total Saskatchewan production	1 686	1 501	12.3
From (to) storage	(216)	75	
Total Sask. requirements ..	2 608	2 921	(10.7)
Less fuel and other uses	(84)	(96)	
Alberta sales	179	247	
Total utility sales	2 703	3 072	(12.0)

† TransCanada PipeLines Limited

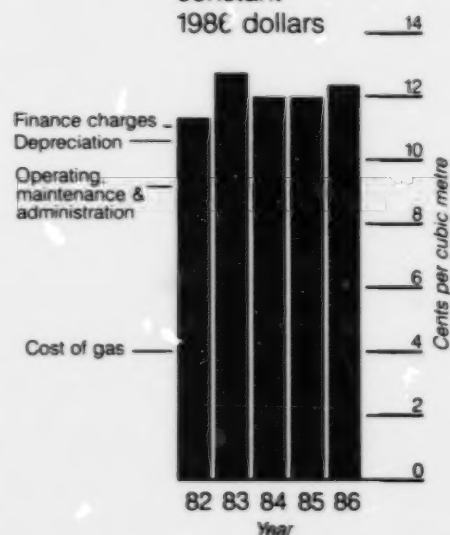
* Many Islands Pipe Lines (Canada) Limited

Natural gas
utility
revenues



Gas revenues declined in 1986 due to warmer weather, lower industrial consumption, and the revenue rebate ordered by PURC.

Natural gas
unit cost in
constant
198¢ dollars



The slightly higher unit cost of gas in constant dollars in 1986 reflects lower demand and higher finance charges and depreciation costs.



Meeting the need for increased electricity requires planning. Tony Harras, Neil Thompson and Dibendu Chakrabarty, SaskPower planning engineers, discuss plans for new transmission and generation and facilities.



Planning for the future ensures an ample supply of electricity and natural gas for K.C. Fehr when he grows up. He is shown with his mother, Jeannette.

Alberta interconnection

In September, Saskatchewan Power Corporation and Alberta Power Limited signed an agreement to construct an interconnection between the Saskatchewan and Alberta transmission systems. Construction is scheduled for completion in October 1989. The project is subject to regulatory approval.

The interconnection will become the first Canadian link between the electrical power pools of eastern and western North America. It will enable Saskatchewan and Alberta to share 100 MW of generation reserves and will allow the purchase and sale of electricity between the two provinces. The project will also allow SaskPower to avoid the construction of 100 MW of peaking capacity, at an estimated capital saving of \$40 million.

The interconnection includes approximately 165 km of 230-kV transmission line from Swift Current to the Alberta border, and 10 km of 138-kV transmission line and a high-voltage, direct current back-to-back converter station in Alberta.

The converter station is required because it is not technically feasible to keep the eastern and western systems interconnected electrically without using direct current technology.

New generation

In February 1986, it was announced that the corporation will construct a 300-MW electric generating station at Shand, 10 km south-east of Estevan. The project is estimated to cost \$597 million, including transmission lines. Construction will begin in 1988 and the first of two units is scheduled to be fully operational in 1992.

The Rafferty Dam, to be located northwest of Estevan on the Souris River, is expected to provide cooling water for the first unit of the Shand station. Construction of the dam is the responsibility of the Souris Basin Development Authority.



Environmental protection is important to SaskPower. Ken Fribance, chemical lab technician, tests the water in the Boundary Dam reservoir for dissolved oxygen.

New technology used

SaskPower is continuing to examine ways of reducing sulphur dioxide emissions from coal-fired power stations. After several years of investigation, the dry-sorbent injection method was found to be the most cost-effective for the conditions at the Shand station.

The station will be the first in Canada to have permanent sulphur dioxide removal equipment installed, and the first to use this specific technology in North America.

The technology removes sulphur dioxide from the exhaust gas before it is emitted from the stack. In the dry-sorbent injection process, dry powdered calcium hydroxide is injected into the furnace above the coal burners. The furnace heat transforms it to calcium oxide, which reacts with sulphur dioxide gas to form non-soluble calcium sulphate. The powdered residue is collected in a high-efficiency precipitator and disposed of with the fly ash.

Working to serve rural Saskatchewan

Saskatchewan Natural Gas Distribution Program

In 1982, the Saskatchewan Natural Gas Distribution Program was initiated to provide a less expensive, more convenient heating fuel to farms and small communities in Saskatchewan. At the end of 1986, natural gas service had been provided to 23 880 customers and a total of 31 490 km of pipe had been installed.

In 1986, 4 699 rural customers and 1 858 small-community customers were added to the system. About 9 800 km of plastic pipe and 340 km of steel pipe were installed to serve these farms and communities.



Gord Norman of Findlater (centre) was one of the 6 500 new customers served by the Saskatchewan Natural Gas Distribution Program during 1986. Ralph Schumacher, district gas serviceman in charge, discusses the installation with Gord.

Rural Underground Distribution

This was the second year of a long-term program to replace the overloaded and aging overhead rural electric system. Ultimately, the entire single-wire overhead system will be replaced with underground facilities.

In 1986, 1 437 km of electric cable was ploughed in, connecting a total of 804 farm customers throughout the province.

Rural underground service has many important advantages for farm customers. It improves farm safety by removing the potential overhead hazard of high-voltage lines; makes farming operations more convenient by removing poles from fields; improves service reliability; and reduces maintenance costs by protecting lines from Saskatchewan's severe weather conditions. The overhead system will be replaced as physical condition and overloading make it necessary.



The Rural Underground Distribution program to replace the overhead electric distribution system is in its second year. Contractors install underground cable near Preeceville during the summer of 1986.



Trainee employees salvage old distribution lines and poles which have been replaced with underground facilities near Indian Head.

Working to serve the north

In 1986, the corporation continued its long-term commitment to provide electrical service to northern Saskatchewan. SaskPower and its wholly owned subsidiary, North-Sask Electric, announced a two-year program to improve northern electrical service.

A major component of the program is the acquisition of three hydroelectric stations previously operated by Eldorado Nuclear Limited. The stations, with a combined capacity of 24.6 MW, are located on the Charlot River northwest of Uranium City.

The agreement provides for the supply of electricity to Eldorado Resources Limited's mine and mill complex near Rabbit Lake. Revenue from this contract will generate enough income over the first 10 years to recover SaskPower's investment to construct the necessary transmission facilities to serve the Rabbit Lake mine.

The stations will continue to provide Uranium City with economical hydro power, and the new Athabasca transmission line will extend this service to Fond du Lac, Stoney Rapids and Black Lake. Construction of the 350-km, 115-kV transmission line, along with a 25-kV extension to Wollaston Post, is scheduled for completion in October 1988. A 14-kV single phase line is also being built from the hydro stations to serve Camsell Portage.

In 1986, North-Sask Electric completed a 125-km power line extension from Pelican Narrows to the Deschambault and Jan Lake areas.



Lorne Prodahl, service and maintenance operator, and other North-Sask Electric Ltd. employees provide electrical service to northern Saskatchewan.

Working to serve our customers better

In 1987, 164 km of 25-kV line will be built to extend the provincial grid to Little Bear Lake, East Trout Lake and Lower Fishing Lake.

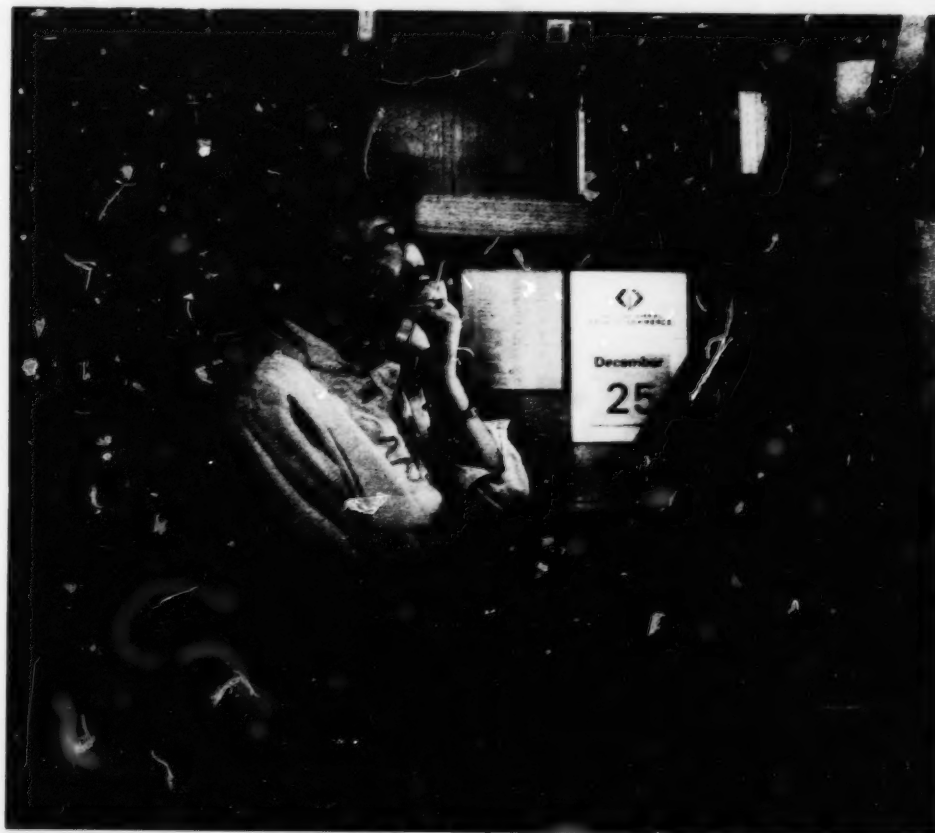
Over the years, SaskPower has connected most northern communities to its electric grid system, replacing high-cost diesel generating units which had previously supplied them with electricity. By 1988 only three diesel generating plants will remain, compared to nine in 1985.

Customer Communications Centre

Saskatchewan's extreme weather can interrupt service at any time. Because our customers rely on service 24 hours a day, they must always have access to us if their service is disrupted.

After business hours, customer calls from throughout the province are automatically diverted from local offices to the Customer Communications Centre in Regina. During 1986 the centre handled more than 80 000 calls.

Customer service was enhanced by a new system that allows us to maintain service-call histories for customers. Communications centre operators can immediately refer to these computerized files. We also use the histories to pinpoint problem areas in the network, and determine where system improvements may be needed to provide better customer service.



The Customer Communications Centre is staffed around the clock, every day of the year, by employees such as Bunny Collett.

The communications centre staff know which SaskPower service personnel are available to handle calls in any area of the province, and can dispatch them immediately. The centre also functions as a centralized operating area for the mobile radio system, which provides instant radio contact with any SaskPower service vehicle anywhere in Saskatchewan, at any time.



Elsa Markus reports a power outage to the Customer Communications Centre.



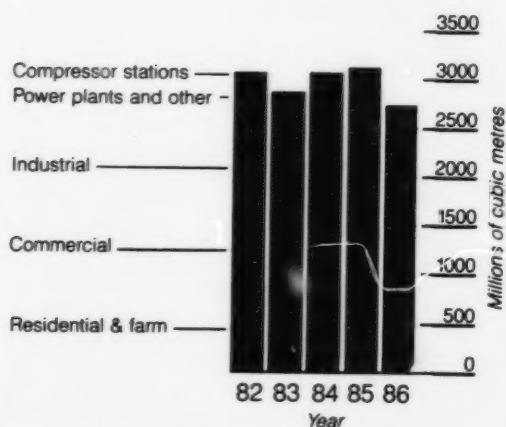
Ron McPherson is one of SaskPower's many behind-the-scenes employees. Ron is working on a gas meter at the repair shop in Saskatoon.

Customer Meters in Service

	On December 31	
	1986	1985
	(restated)	
Gas		
Residential	227 824	221 934
Farm	12 318	8 534
Commercial	31 808	30 592
Industrial	124	121
Intersystem & other	10	10
Total	272 084	261 191
Electric		
Residential	273 736	266 841
Farm	71 691	70 917
Commercial*	55 258	47 751
Industrial	30	29
Street lights	930	930
Intersystem & other	13	15
Total	401 658	386 483

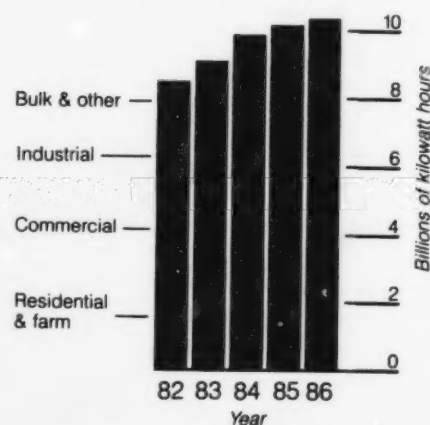
* This category includes the oil field sector, which was recorded by the number of accounts prior to 1986. In 1986, the actual number of electric meters is recorded. This restatement increased the number of commercial accounts shown by approximately 6 000.

Gas consumption



Warm weather and reduced industrial consumption contributed to a decline in total gas consumption.

Electricity consumption



Consumption increased by 1.9 per cent over 1985, compared to the five-year average of 4.4 per cent per year.

SaskPower people: working for you

During 1986, the corporation had an average monthly staff of 3 181.

SaskPower has been successful in attracting and retaining a skilled and dedicated workforce, many of whom have spent all their working lives with the corporation. About 20 per cent of the workforce has more than 25 years of service with the corporation. In 1986, 169 employees were honored as they reached 25, 30 and 35 years of service.

Affirmative Action program continues

Over the past few years SaskPower has developed an effective affirmative action program, focusing on three target groups: the disabled, people of native ancestry, and women in non-traditional occupations.

At the end of 1986, there were 92 disabled persons, 82 native persons, and 44 women working in non-traditional jobs, at SaskPower.



In the first stage of receiving customer payments, Cheryl Sauer (left) and Hermine Braumberger, cash receipts clerks, operate a mail-opening machine which can handle up to 1700 envelopes an hour.



Max Meier, gas serviceman, (left) relights a furnace for Melfort customer Margaret Koch, while trainee Garry Unrau observes.



Ken Knorr, district operator, works on an overhead line.



Reg Welsh, gas maintenance man, checks a scrubbing unit which removes water and other impurities from natural gas.

Health and safety is a priority

The health and safety of employees and the general public is a major concern at SaskPower.

In 1986, employees had 46 fewer vehicle accidents than last year. There were 50 lost-time injuries in 1986, compared to 39 in 1985. There were no public fatalities in 1986 compared to one in 1985.

We provide specialized training courses to prepare our employees for emergencies. More than 1 000 employees throughout the province took courses in first aid, cardiopulmonary resuscitation and fire-fighting.

In the interest of public safety, SaskPower joined with SaskTel to conduct safety meetings for contractors. More than 3 000 employees of contractors attended 74 meetings. The program was designed to increase contractors' awareness of the precautions they should take before excavating, ploughing or trenching.

Union negotiations

On November 24, negotiations began for a new agreement with the International Brotherhood of Electrical Workers (IBEW) Local Union 2067, whose agreement expired December 31, 1986.

Negotiations with the Energy and Chemical Workers Union (ECW) Local 649 started on December 22, 1986. The ECW agreement expires January 31, 1987.

Working to develop the Saskatchewan economy

Buy Saskatchewan

SaskPower's Buy Saskatchewan Program continues to play an important role in expanding the manufacturing base in Saskatchewan. The program encourages existing manufacturers to expand their product lines to include products previously purchased out of province by SaskPower. The Buy Saskatchewan Program has also encouraged business to establish several manufacturing facilities within the province.

In September, a large Japanese manufacturer of electrical equipment announced it would build a \$7 million manufacturing plant in Saskatoon. The plant's initial production will consist of components for the Shand turbines and generators. The manufacturing plant will create about 45 new jobs.

SaskPower also continued its emphasis on the development of Saskatchewan service industries. As a result of a contract negotiated in 1986, almost 100 per cent of engineering for the Shand project will be performed in the province.

In 1986, SaskPower purchased goods and services valued in excess of \$319 million. More than 72 per cent of these purchases were from Saskatchewan suppliers. In addition, the corporation purchased Saskatchewan coal and natural gas worth \$176.1 million.



At the manufacturing plant in Saskatoon, Bruce Steeg checks the outside diameter of plastic pipe which will be used in the Saskatchewan Natural Gas Distribution Program to serve rural residents.

Savings Bonds

This year marked the corporation's third successful issue of Saskatchewan Power Corporation Savings Bonds.

During the 1986 sales campaign, the corporation sold \$85.3 million of Series III bonds which yield 8.75 per cent. This compares to sales of \$90.9 million of Series II in 1985 and \$60.1 million of Series I bonds in 1984.

Working smarter

Customer services

The most significant new information system in 1986 was the Customer Services Information System. The province-wide conversion to the new system was completed in March. Using the accurate and up-to-date information the system provides, staff in 59 offices can handle customer inquiries and requests for service more quickly and accurately.

Information systems

More than ever before, employees need to have information available instantly to make timely and effective decisions.

In 1986, the corporation made major advances in using computer and communication systems to streamline the processing, storage and transmission of information between decentralized field offices and head office.



Sheree Eberts, district office manager, (standing), instructs Karen Smith, district clerk, in how to use computerized customer records to answer inquiries.

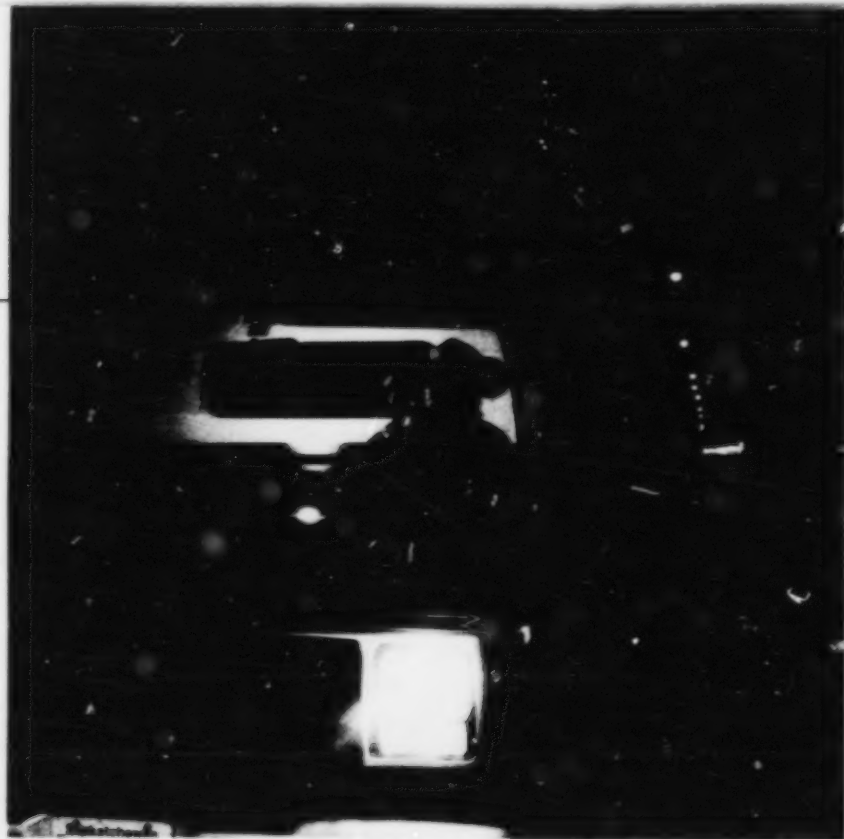


At the System Control Centre, Neil Curtis (seated) and Tim LeBlanc direct the flow of electricity from SaskPower's generating stations.

Materials management

At year end the corporation was in the final stages of rigorous testing of a comprehensive Materials Management Information System (MMIS). The system handles material requisition, inventory accounting and control, purchasing and accounts payable.

MMIS allows field and head-office staff immediate access to up-to-date information to aid decision making. Corporate productivity is also improved because staff have more current information on the availability of materials and the status of purchase orders. As well, the system provides information to help staff plan purchases to coincide with job schedules and to replenish inventories when needed.



Bob Hanson, gas serviceman, responds to trouble calls around the clock.

MMIS also reduces paperwork and the time it takes to process it. For example, staff at remote field locations can request materials through a computer terminal. The request is electronically passed to a stores location to be filled.

Other systems

Other new computer systems are also assisting the corporation manage its assets. Computerized records of petroleum and natural gas lease agreements help keep the agreements up-to-date to identify opportunities and avoid losses.

The Vehicle and Equipment Maintenance System helps the corporation manage expenditures and will result in reduced vehicle downtime, reduced repair and operating costs, and more efficient clerical effort.

Systems to handle cost, schedule and design information for large construction projects help SaskPower build facilities on schedule and at controlled cost.

Rates and the regulatory process



Joe Felber, service and maintenance operator, ensures reliable electrical service to our customers.

Electrical rate increase

On January 20, 1986, PURC approved an interim increase in electrical rates averaging 7.5 per cent effective March 1, 1986.

In May the corporation requested that the 1986 interim rates be made final, and that an additional increase of 7.5 per cent be made effective January 1, 1987.

After public hearings in August, the commission approved an electrical rate increase averaging 7.5 per cent for 1987, subject to final approval after consideration of how the increase was to be applied to the various customer classes. Final approval of the 1986 rates was not granted at that time. In an order dated December 1, 1986, the 1986 interim rates were extended to February 1, 1987.

The corporation filed its application for final rate approval in November, requesting the approved 1987 electrical rate increase be applied equally across the board to all customer classes. Hearings on the application were scheduled to be held in early January 1987.

Natural gas rates

The commission ruled that the forecast earnings of the natural gas utility for 1986 were too high and ordered that rates be reduced by \$3.7 million and that this amount be refunded to industrial customers. It also ordered that the level of rates be reduced by a further \$2.7 million for a total of \$6.4 million in 1987.

Natural gas pricing

Sweeping changes to the structure of natural gas prices across Canada are expected to produce reductions in the cost of gas supplies. The corporation will be seeking rate reductions in 1987 to reflect the reduced cost of gas.

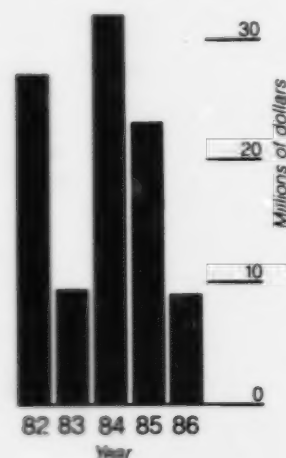
Five-year operating summary

	Natural gas operations					Electrical operations				
	1986	1985	1984	1983	1982	1986	1985	1984	1983	1982
Sales (10 ⁶ m ³) (kW-h x 10 ⁶)	2 703	3 072	3 020	2 823	3 012	10 366	10 172	9 861	9 096	8 468
Growth over prior year (%)	-12.01	1.72	6.98	-6.27	7.04	1.91	3.15	8.41	7.42	-0.21
Average usage per residential customer (m ³) (kW-h)	3 623	4 006	3 954	3 741	4 405	7 854	7 642	7 558	7 377	7 335
Average urban residential monthly billing (\$)	43	49	45	42	44	37	34	30	25	24
Maximum daily consumption (10 ⁶ m ³)/Seasonal gross system peak load (kW x 10 ³)	16 252	19 103	17 385	20 000	18 550	2 178	2 198	2 206	2 120	1 886
Degree days - Regina	5 204	6 018	5 550	5 732	6 294					
Customers at year end*	272 084	261 191	253 438	244 441	233 700	401 658	386 483	385 867	380 451	370 406
Pipelines/power lines (km)*	49 401	39 023	29 876	21 799	15 927	138 845	136 374	135 905	134 938	134 341

* Customer figures for 1986 and 1985 include the number of customer meters in service on December 31. The 1982 to 1984 customer figures show the number of customers billed during the month of December. These prior-year figures include adjustments for customers who received bills on a quarterly basis.

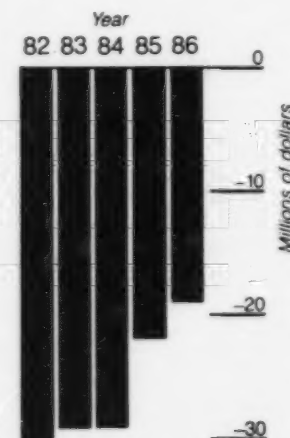
† 1986 power line figure includes North-Sask Electric Ltd. facilities.

Natural gas utility income from operations



Declining gas utility earnings in the last two years resulted from warmer-than-normal weather, lower industrial demand, and revenue rebates ordered by PURC.

Electrical utility loss from operations



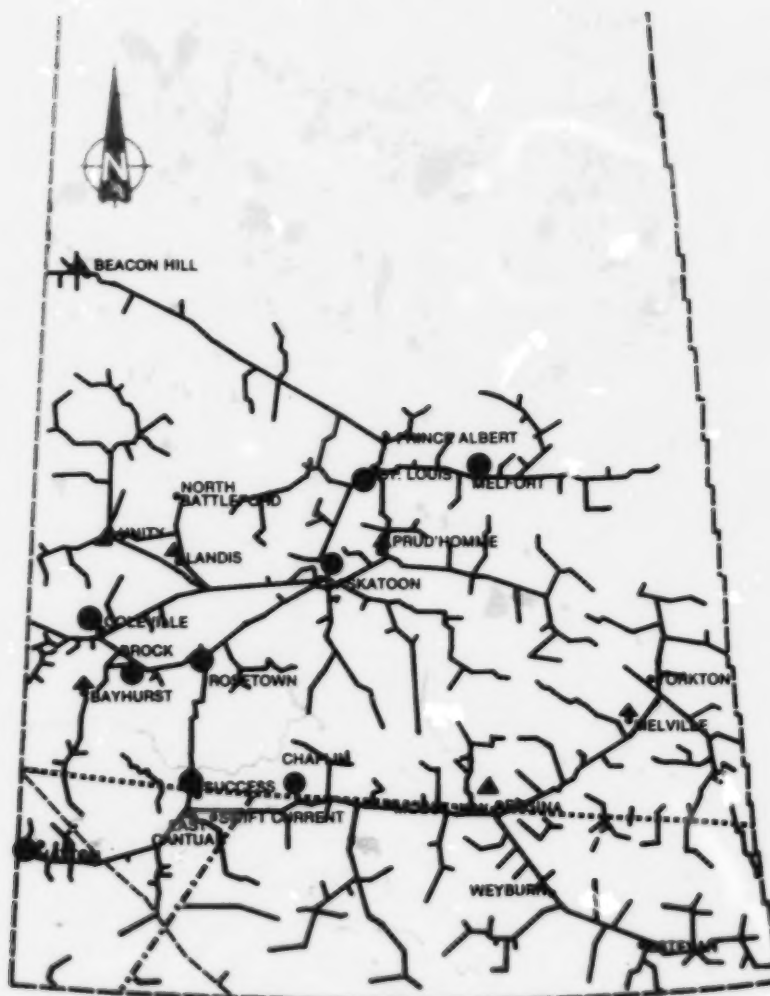
Electrical utility losses are declining. The three-step recovery program is intended to place the utility in a break-even position by 1988.

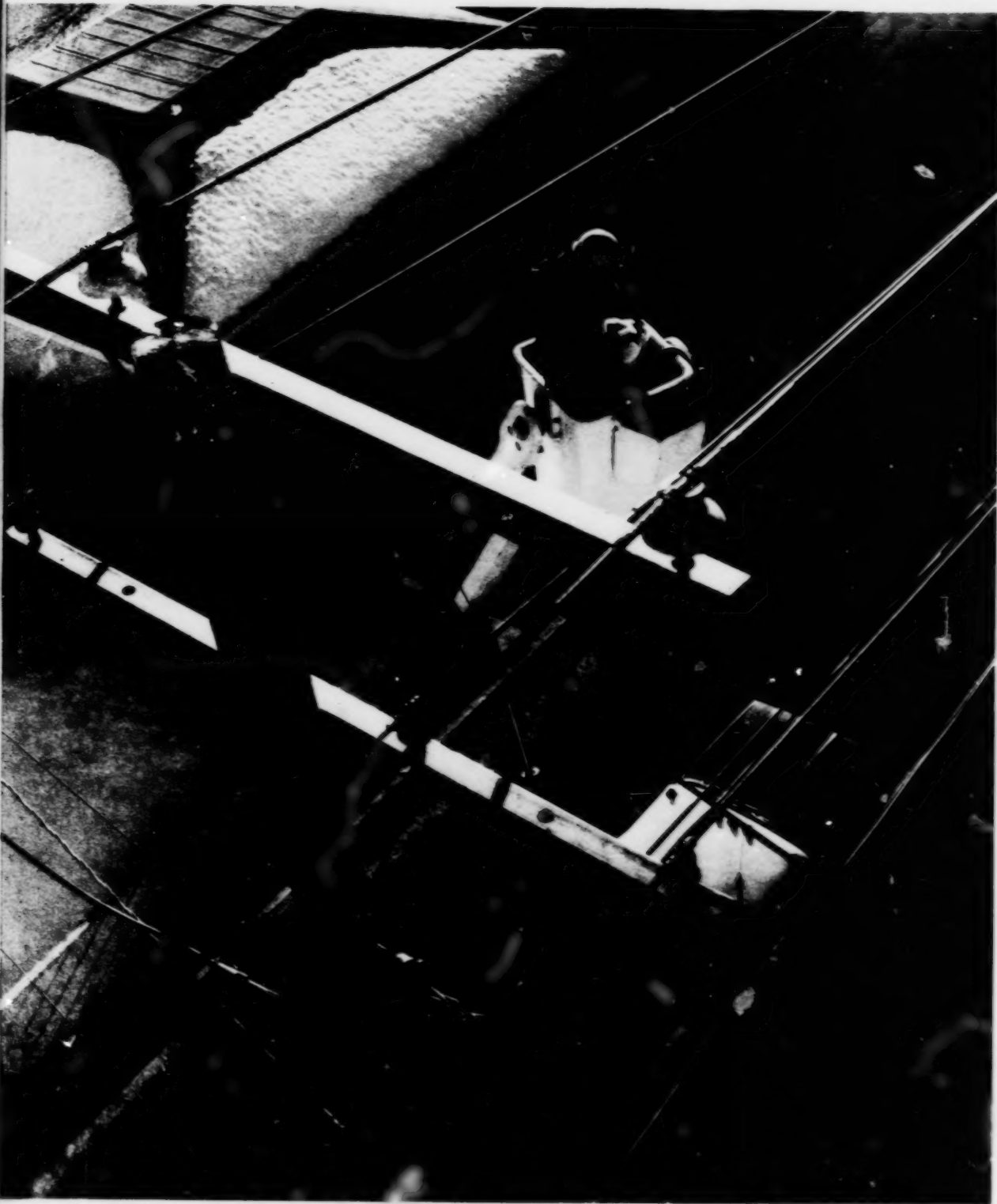
Energy systems in Saskatchewan

Natural gas



-  Compressor station
 Compressor station and storage facility
 High-pressure transmission lines
 TransCanada PipeLines Limited
 Consolidated Pipeline Co.
 Foothills Pipeline Ltd.





SaskPower people find time for errands of mercy. Bill Aumuller rescues a cat from a power pole, while Shala Seman (left) waits for her pet with Jeff New (top) and Allison Quine.

Report of management

Management is responsible for the integrity of the financial data reported by the Corporation and its subsidiaries. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada which are consistently applied, with any exceptions specifically described in the notes to the consolidated financial statements. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgment in order that such statements reflect fairly the consolidated financial position, results of operations and changes in cash position.

In order to gather and control financial data, the Corporation has established accounting and reporting systems supported by internal controls and an internal audit program. In establishing systems of internal control, management weighs the cost of such systems against the benefits that it believes can be derived. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Provincial Auditor for the Province of Saskatchewan has examined the Saskatchewan Power Corporation's consolidated statements of financial position as at

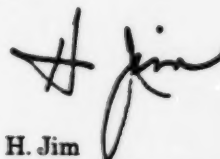
December 31, 1986 and the related consolidated statements of income and retained earnings and changes in cash position for the year then ended. His responsibility is to express an opinion on the fairness of management's financial statements. The Auditor's Report outlines the scope of his examination and his opinion.

In ensuring that management fulfils its responsibility for financial reporting and internal control, the Board of Directors is assisted by the Audit Committee whose members are outside directors. At regular meetings, the committee discusses audit and financial reporting matters with representatives of management, the internal auditors and the Provincial Auditor. The Audit Committee has reviewed the consolidated financial statements with the Provincial Auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management,



E. B. Campbell
President



H. Jim
Vice-President, Finance

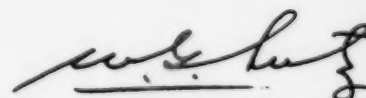
Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the consolidated statements of financial position of Saskatchewan Power Corporation as at December 31, 1986, and the consolidated statements of income and retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Saskatchewan

Power Corporation as at December 31, 1986 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Regina, Saskatchewan
February 13, 1987

W. G. Lutz, FCA
Provincial Auditor

Consolidated statements of financial position

as at December 31

(in millions)

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
Assets						
Property, plant and equipment						
Property, plant and equipment (Note 2)	\$3 209	\$2 639	\$2 446	\$1 955	\$763	\$684
Less: Accumulated depreciation and depletion	<u>790</u>	<u>712</u>	<u>561</u>	<u>505</u>	<u>229</u>	<u>207</u>
	2 419	1 927	1 885	1 450	534	477
Construction in progress	<u>56</u>	<u>373</u>	<u>48</u>	<u>366</u>	<u>8</u>	<u>7</u>
	<u>2 475</u>	<u>2 300</u>	<u>1 933</u>	<u>1 816</u>	<u>542</u>	<u>484</u>
Current assets						
Cash and short-term investments	—	18	—	(6)	—	24
Accounts receivable and unbilled revenue	127	142	75	75	52	67
Note receivable (Note 3)	—	89	—	89	—	—
Inventories	<u>82</u>	<u>78</u>	<u>46</u>	<u>46</u>	<u>36</u>	<u>32</u>
	<u>209</u>	<u>327</u>	<u>121</u>	<u>204</u>	<u>88</u>	<u>123</u>
Unamortized costs of long-term debt						
Foreign exchange	85	108	72	92	13	16
Discount and issue expense	<u>30</u>	<u>31</u>	<u>25</u>	<u>26</u>	<u>5</u>	<u>5</u>
	<u>115</u>	<u>139</u>	<u>97</u>	<u>118</u>	<u>18</u>	<u>21</u>
Other assets and deferred costs	<u>58</u>	<u>54</u>	<u>6</u>	<u>12</u>	<u>52</u>	<u>42</u>
	<u>\$2 857</u>	<u>\$2 820</u>	<u>\$2 157</u>	<u>\$2 150</u>	<u>\$700</u>	<u>\$670</u>

Approved on behalf of the Board:



, Director



, Director

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
Liabilities and equity						
Long-term debt						
Advances from the Province of Saskatchewan (Note 3)	\$2 256	\$2 293	\$1 902	\$1 940	\$354	\$353
Saskatchewan Power Corporation Savings Bonds (Note 4)	223	147	167	118	56	29
Other	51	12	51	12	—	—
	2 530	2 452	2 120	2 070	410	382
Less equity in sinking funds (Note 3)	272	252	211	194	61	58
Long-term debt net of sinking funds	2 258	2 200	1 909	1 876	349	324
Less amounts due within one year (Note 3)	96	128	77	98	19	30
	2 162	2 072	1 832	1 778	330	294
Current liabilities						
Bank indebtedness	1	—	6	—	(5)	—
Accounts payable and accrued liabilities	181	207	126	143	55	64
Long-term debt due within one year	96	128	77	98	19	30
	278	335	209	241	69	94
Other liabilities and deferred income	70	72	56	56	14	16
Equity						
Retained earnings (deficit)	213	223	(35)	(16)	248	239
Contributions in aid of construction	134	118	95	91	39	27
	347	341	60	75	287	266
	\$2 857	\$2 820	\$2 157	\$2 150	\$700	\$670

See accompanying notes

Consolidated statements of income and retained earnings

For the years ended December 31

(in millions)

	Consolidated		Electrical Utility		Gas Utility	
	1986	1985	1986	1985	1986	1985
Revenue						
Sales to customers	\$847	\$837	\$508	\$469	\$339	\$368
Inter-utility sales eliminated on consolidation	—	—	1	1	5	14
	<u>847</u>	<u>837</u>	<u>509</u>	<u>470</u>	<u>344</u>	<u>382</u>
Costs and expenses						
Fuel, water and purchased electricity	83	102	83	102	—	—
Gas	206	231	—	—	206	231
Inter-utility costs eliminated on consolidation	—	—	3	6	3	9
Operating, maintenance and administration	228	228	158	159	70	69
Depreciation and depletion	95	78	70	58	25	20
	<u>612</u>	<u>639</u>	<u>314</u>	<u>325</u>	<u>304</u>	<u>329</u>
Income before finance charges	<u>235</u>	<u>198</u>	<u>195</u>	<u>145</u>	<u>40</u>	<u>53</u>
Finance charges (Note 5)	<u>245</u>	<u>197</u>	<u>214</u>	<u>167</u>	<u>31</u>	<u>30</u>
Net income (loss)	<u>(10)</u>	<u>1</u>	<u>(19)</u>	<u>(22)</u>	<u>9</u>	<u>23</u>
Retained earnings (deficit)						
Beginning of year	<u>223</u>	<u>222</u>	<u>(16)</u>	<u>6</u>	<u>239</u>	<u>216</u>
End of year	<u>\$213</u>	<u>\$223</u>	<u>\$ (35)</u>	<u>\$ (16)</u>	<u>\$248</u>	<u>\$239</u>

See accompanying notes

Consolidated statements of changes in cash position

For the years ended December 31

(in millions)

	Consolidated		Electrical Utility		Gas Utility	
	1986	1985	1986	1985	1986	1985
Cash from operations available for debt servicing and capital expenditures (Note 6)	<u>\$406</u>	<u>\$303</u>	<u>\$347</u>	<u>\$230</u>	<u>\$59</u>	<u>\$73</u>
Cash used for debt servicing						
Gross interest payments	289	268	248	232	41	36
Principal repayments	200	6	173	4	27	2
Sinking fund instalments	14	13	11	10	3	3
	<u>503</u>	<u>287</u>	<u>432</u>	<u>246</u>	<u>71</u>	<u>41</u>
Net cash available (deficiency) for capital expenditures	<u>(97)</u>	<u>16</u>	<u>(85)</u>	<u>(16)</u>	<u>(12)</u>	<u>32</u>
Cash used for capital expenditures						
Additions to property, plant and equipment	270	303	187	231	83	72
Less interest capitalized	(10)	(44)	(8)	(43)	(2)	(1)
	<u>260</u>	<u>259</u>	<u>179</u>	<u>188</u>	<u>81</u>	<u>71</u>
Net cash deficiency before financing	<u>(357)</u>	<u>(243)</u>	<u>(264)</u>	<u>(204)</u>	<u>(93)</u>	<u>(39)</u>
Cash from financing and other sources						
Long-term debt	317	299	255	251	62	48
Other	21	28	9	7	12	21
	<u>338</u>	<u>327</u>	<u>264</u>	<u>258</u>	<u>74</u>	<u>69</u>
Increase (decrease) in cash	<u>(19)</u>	<u>84</u>	<u>—</u>	<u>54</u>	<u>(19)</u>	<u>30</u>
Cash position (indebtedness), beginning of year	<u>18</u>	<u>(66)</u>	<u>(6)</u>	<u>(60)</u>	<u>24</u>	<u>(6)</u>
Cash position (indebtedness), end of year	<u>\$ (1)</u>	<u>\$ 18</u>	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ 5</u>	<u>\$24</u>
Cash position (indebtedness) at end of year consists of:						
Cash and short-term deposits	\$ 79	\$ 33	\$ —	\$ —	\$79	\$33
Bank indebtedness	(80)	(15)	(6)	(6)	(74)	(9)
	<u>\$ (1)</u>	<u>\$ 18</u>	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ 5</u>	<u>\$24</u>

See accompanying notes

Notes to consolidated financial statements

December 31, 1986

The Corporation was established pursuant to The Power Corporation Act, passed on April 8, 1950. In accordance with the provisions of this Act, the Corporation's main functions are the generation, transmission, distribution, sale and supply of electrical energy and the production or purchase, transmission, distribution, sale and supply of natural gas. The Corporation's electrical and natural gas rates are subject to regulation by the Saskatchewan Public Utilities Review Commission (PURC), established in December 1982.

1. Accounting policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles and conform in all material respects with International Accounting Standards, except that there is no provision for income taxes as they are not exigible on earnings of Crown Corporations. The following policies are considered to be significant:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, North-Sask Electric Ltd., Many Islands Pipe Lines Limited and Many Islands Pipe Lines (Canada) Limited. All intercompany accounts and transactions have been eliminated on consolidation.

Corporate assets, liabilities and expenses are allocated to the electrical and gas utilities on bases which are reviewed and updated on an annual basis.

(b) Joint ventures

Substantially all gas exploration and production activities are conducted with joint-venture partners and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost and include direct material, interest, labor and overhead costs.

The costs of renewals and enhancements which extend the economic useful life of assets are capitalized. On partial disposal of an asset, the cost less the proceeds of sale is charged to accumulated depreciation. When a complete asset is retired, a gain or loss is recognized in the statement of income.

Costs associated with modifications to property, plant and equipment as a result of environmental concerns are capitalized as part of the cost of plant in service and are depreciated over the remaining useful life of the related asset.

Maintenance and repair costs are expensed as incurred.

The full-cost method of accounting for gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of gas reserves are capitalized. Capitalized costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, general and administrative costs and drilling of productive and non-productive wells. Interest is capitalized on unproved properties and major development projects, provided the related costs are not being depleted or depreciated. Proceeds from minor property sales are reflected as a reduction of the total capitalized costs; gains or losses on significant property sales are recognized in the statement of income.

Depreciation is calculated on a straight-line basis over the estimated service life of the utility assets. Depletion of gas properties and depreciation of production equipment and facilities are calculated using the unit of production method based on estimated proven reserves.

(d) Capitalization of interest

Interest associated with major capital and development projects is capitalized during the construction period at the Corporation's weighted average interest rate of long-term borrowings in the current year.

(e) Inventories

Stores inventories consisting of maintenance material, supplies and plant repair parts are recorded at average cost. Coal, fuel oil and gas in storage are recorded at cost on a first-in, first-out basis.

(f) Foreign currency translation

Transactions and balances denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year end, the recorded amounts of monetary assets and liabilities are adjusted using the exchange rate at that date. Any resulting exchange gains and losses are included in the statement of income in the current period except for unrealized exchange gains and losses on long-term monetary items which are deferred and amortized over the remaining life of the asset or liability.

(g) Amortization of discount and issue expenses

Debt discount and issue expenses are amortized over the term of the respective debt issue. Gains or losses on partial redemption are amortized in the same manner.

(h) Early retirement costs

The Corporation developed a program which offered early retirement to certain employees. The costs were determined using actuarial methods and are amortized over four years from the commencement of the program.

(i) Customer contributions

Contributions relating to new service connections, when revenues generated from such services are expected to exceed the costs of such services over a period of time, are credited to deferred income and amortized over that period.

(j) Contributions in aid of construction

Contributions in aid of construction consist of funds received relating to new service connections where it is estimated that revenues will never exceed the cost of providing service. These contributions are included in Equity.

Notes to consolidated financial statements (continued)

2. Property, plant and equipment (in millions)

	<u>Cost</u>	<u>Accumulated depreciation and depletion</u>	<u>Net book value</u>	
			<u>1986</u>	<u>1985</u>
Electrical Utility				
Generation plant				
Thermal	\$ 749	\$205	\$ 544	\$ 552
Hydro	733	64	669	298
Other	24	8	16	15
Transmission	281	92	189	194
Distribution	573	161	412	340
Other	86	31	55	51
	<u>2 446</u>	<u>561</u>	<u>1 885</u>	<u>1 450</u>
Gas Utility				
Production	156	49	107	107
Gathering, treatment and compression facilities	69	37	32	33
Transmission and storage	172	62	110	106
Distribution	331	67	264	209
Other	35	14	21	22
	<u>763</u>	<u>229</u>	<u>534</u>	<u>477</u>
	<u>\$3 209</u>	<u>\$790</u>	<u>\$2 419</u>	<u>\$1 927</u>
Composite depreciation and depletion rates			<u>1986</u>	<u>1985</u>
Electrical Utility			3.28%	3.44%
Gas Utility			3.70%	3.52%
Accumulated interest capitalized				
Amount included in property, plant and equipment			<u>\$ 249</u>	<u>\$ 239</u>

3. Advances from the Province of Saskatchewan (in millions)

	Debt recorded	Face amount in foreign currency	Maturities (in Canadian dollars)					
			1987	1988	1989	1990	1991	1992 and beyond
Canadian Dollar Issues with interest rates of 5.50 to 16.75	\$1 016	\$ —	\$26	\$31	\$ 60	\$15	\$ 2	\$ 882
Canadian Dollar Issues callable upon six-months notice with interest rates of 5.36 to 14.06	501	—	9	25	29	33	29	376
U.S. Dollar Issues with interest rates of 4.875 to 16.375	739	536	—	—	16	4	207	512
	<u>\$2 256</u>	<u>\$536</u>	<u>\$35</u>	<u>\$56</u>	<u>\$105</u>	<u>\$52</u>	<u>\$238</u>	<u>\$1 770</u>

Certain advances from the Province require the establishment of sinking funds, which, upon maturity of the respective advances, are applied to the principal amounts to be repaid.

The equity in sinking funds amounted to \$272 at December 31, 1986 (\$252 at December 31, 1985). Sinking fund instalments payable for the next five years are as follows: 1987 — \$14; 1988 — \$13; 1989 — \$12; 1990 — \$12; 1991 — \$11

The current portion of long-term debt consists of:

	Consolidated		Electrical Utility		Gas Utility	
	1986	1985	1986	1985	1986	1985
Advances from the Province of Saskatchewan, net of sinking fund instalments and applica- tions	\$33	\$123	\$29	\$93	\$ 4	\$30
Saskatchewan Power Corporation Savings Bonds (Note 4)	61	3	46	3	15	—
Other	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>—</u>	<u>—</u>
	<u>\$96</u>	<u>\$128</u>	<u>\$77</u>	<u>\$98</u>	<u>\$19</u>	<u>\$30</u>

In 1986, an Advance from the Province of Saskatchewan was received amounting to \$89.3 million and is due December 30, 2004. During 1986, the Corporation renegotiated the terms of a promissory note receivable so that the principal, interest rate and maturity are identical to that of the Advance. The Corporation completed a "legal defeasance" of the Advance by placing the note

receivable into an irrevocable trust to be used solely for satisfying the principal and interest payments on the Advance. The Province of Saskatchewan has accepted the promissory note as full and final satisfaction of the Advance. Accordingly, neither the Advance nor the note receivable are reflected in the accompanying financial statements.

Notes to consolidated financial statements (continued)

4. Saskatchewan Power Corporation Savings Bonds

Saskatchewan Power Corporation Savings Bonds issued and outstanding are as follows (in millions):

Series	Issue date	Maturity date	Interest rate	Amount outstanding	
				1986	1985
I	July 6, 1984	July 6, 1987	11.50%	\$ 54	\$ 57
II	July 5, 1985	July 6, 1988	9.50%	84	90
III	July 4, 1986	July 6, 1989	8.75%	85	—
				<u>\$223</u>	<u>\$147</u>

The bonds are subject to early redemption semi-annually until maturity at the option of the bondholder. Bonds redeemed January 6, 1987 of \$7 million (\$3 million January 6, 1986) are classified as long-term debt due within one year. The interest rates can be increased at the discretion of the Minister of Finance of the Province of Saskatchewan.

5. Finance charges (in millions)

	Consolidated		Electrical Utility		Gas Utility	
	1986	1985	1986	1985	1986	1985
Gross interest expense	\$289	\$268	\$248	\$232	\$ 41	\$ 36
Less amount capitalized	<u>10</u>	<u>44</u>	<u>8</u>	<u>43</u>	<u>2</u>	<u>1</u>
	<u>279</u>	<u>224</u>	<u>240</u>	<u>189</u>	<u>39</u>	<u>35</u>
Amortization of:						
Foreign exchange	13	18	11	15	2	3
Debt discount and issue expense	<u>3</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>—</u>	<u>—</u>
	<u>16</u>	<u>20</u>	<u>14</u>	<u>17</u>	<u>2</u>	<u>3</u>
	<u>295</u>	<u>244</u>	<u>254</u>	<u>206</u>	<u>41</u>	<u>38</u>
Less:						
Sinking fund earnings	35	31	27	24	8	7
Interest income	<u>15</u>	<u>16</u>	<u>13</u>	<u>15</u>	<u>2</u>	<u>1</u>
	<u>50</u>	<u>47</u>	<u>40</u>	<u>39</u>	<u>10</u>	<u>8</u>
Finance charges, net	<u>\$245</u>	<u>\$197</u>	<u>\$214</u>	<u>\$167</u>	<u>\$31</u>	<u>\$30</u>
Interest rate used in capitalization	<u>9.7%</u>	<u>11.5%</u>				

6. Cash from operations (in millions)

The components of cash from operations are as follows:

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
Income from operations before finance charges	\$235	\$198	\$195	\$145	\$ 40	\$ 53
Interest income	15	16	13	15	2	1
Charges to operations not requiring an outlay of cash:						
Depreciation and depletion	95	78	70	58	25	20
Other	(13)	(6)	(3)	—	(10)	(6)
	<u>332</u>	<u>286</u>	<u>275</u>	<u>218</u>	<u>57</u>	<u>68</u>
Net change in non-cash working capital:						
Accounts receivable and unbilled revenue	15	11	—	—	15	11
Notes receivable	89	10	89	10	—	—
Inventories	(4)	(12)	—	(10)	(4)	(2)
Accounts payable and accrued liabilities	(26)	8	(17)	12	(9)	(4)
	<u>74</u>	<u>17</u>	<u>72</u>	<u>12</u>	<u>2</u>	<u>5</u>
Cash from operations	<u>\$406</u>	<u>\$303</u>	<u>\$347</u>	<u>\$230</u>	<u>\$ 59</u>	<u>\$ 73</u>

Notes to consolidated financial statements (continued)

7. Commitments and contingencies

- (a) At December 31, 1986, the Corporation was committed in the amount of approximately \$127 million for construction materials, equipment, services and on contracts not completed at that time. The Corporation had forward commitments of \$2 050 million for natural gas and \$1 398 million for coal contracted for future minimum deliveries at 1986 prices. The commitments extend to 2006 and 2015, respectively.
- (b) In 1979, the Corporation commenced an action in the Saskatchewan Court of Queen's Bench for the recovery of \$5.3 million paid under protest pursuant to a contract entered into in 1969 with TransCanada PipeLines Limited. The trial was held on January 22, 1985. The trial Judge dismissed the Corporation's claim and the decision is being appealed to the Saskatchewan Court of Appeal.
- (c) In 1983, the Cumberland House Local Community Authority #3 and various local groups and residents commenced legal action against the Corporation and the Province of Saskatchewan claiming \$200 million as compensation for damages allegedly suffered due to the construction and operation of the Squaw Rapids Hydroelectric Station. A mediator has been appointed and until the mediation process is concluded, there will be no activity on the court action. A reasonable estimate of the amount of the settlement, if any, cannot be determined at this time.
- (d) In 1982, the Corporation sold a dragline for \$45 million and recorded a gain on the sale. The gain is being amortized over the life of the notes. The purchaser of the dragline financed the transaction by issuing promissory notes due May 18, 2003. The notes were endorsed by the Corporation and the Corporation's liability as endorser is guaranteed by the Province of Saskatchewan. The Corporation holds a chattel mortgage on the dragline as security against its contingent liability.

- (e) In 1984, the Corporation sold its Poplar River Mine, including certain coal reserves, facilities and equipment. As part of the sale, certain leased mining equipment was transferred to the purchaser and the purchaser assumed the lease with the Corporation contingently liable for the payments. As collateral, the purchaser has assigned a security interest in the mine facilities and other assets to the Corporation.

8. Pensions

The Corporation provides for pension plans for substantially all employees. One of the plans is a money purchase plan and the amount to be paid is determined by The Superannuation (Supplementary Provisions) Act. For the other plan, the contributions are based on actuarial valuations. An actuarial valuation as at September 30, 1986, indicated there is no unfunded liability.

9. Related party transactions

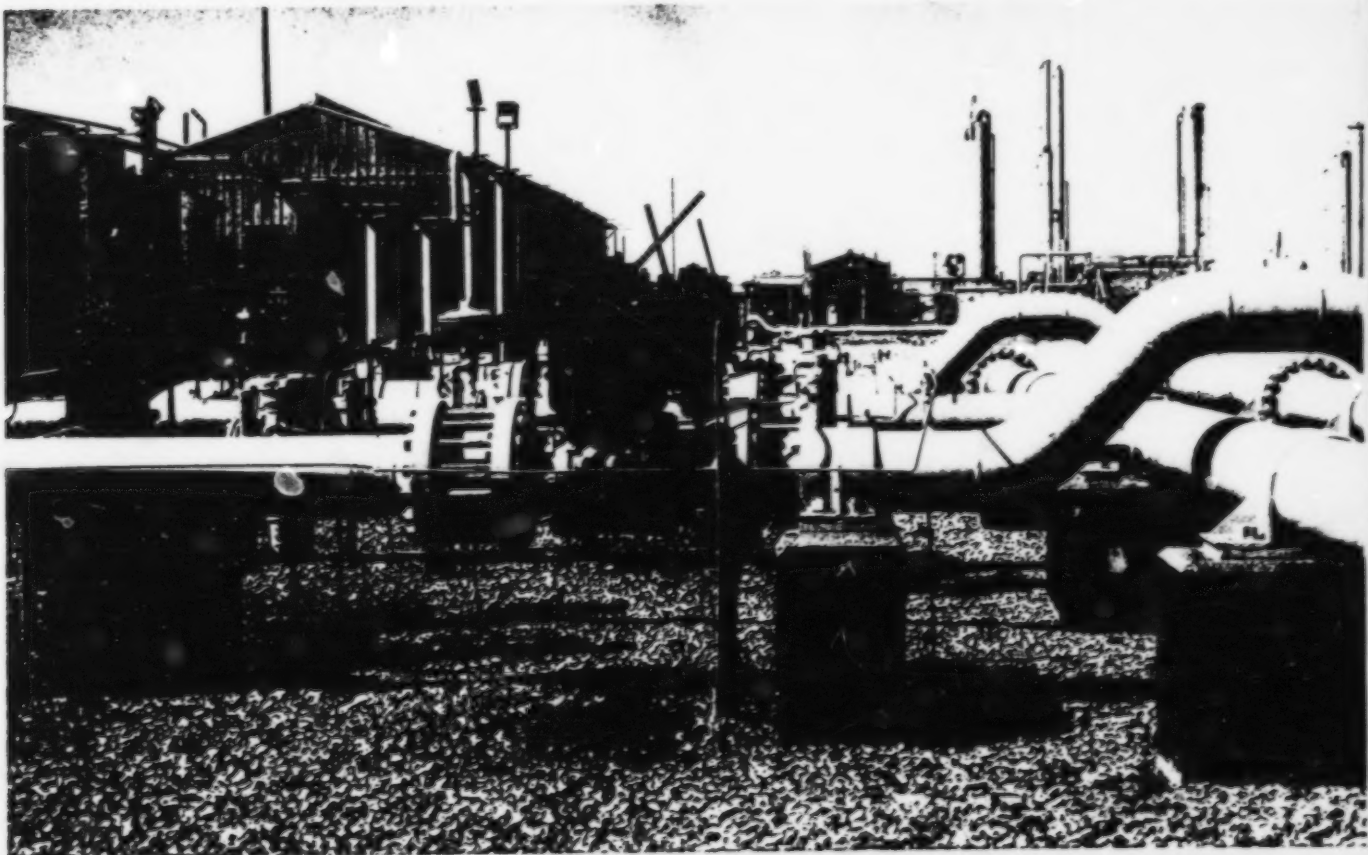
Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statements of financial position and are settled in normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

10. Comparative figures

Certain amounts for the prior year have been reclassified to conform with the presentation in 1986.



Compressor stations increase the pressure of natural gas in the pipeline system to ensure that adequate quantities are delivered to customers.



The lights of Saskatoon are reflected in the South Saskatchewan River.

Electrical utility statements of income

(in millions)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue	\$509	\$470	\$431	\$374	\$332	\$286	\$246	\$219	\$190	\$159
Costs and expenses										
Fuel, water and purchased electricity	86	108	89	85	76	60	60	46	39	45
Operating, maintenance and administration	158	159	149	140	132	128	107	81	70	61
Depreciation	70	58	57	50	46	39	31	28	26	22
	314	325	295	275	254	227	198	155	135	128
Income before finance charges	195	145	136	99	78	59	48	64	55	31
Finance charges	214	167	165	128	108	82	52	41	39	26
Income (loss) from operations	(19)	(22)	(29)	(29)	(30)	(23)	(4)	23	16	5
Extraordinary gains and losses	-	-	7	-	-	-	-	-	-	-
Net income (loss)	\$ (19)	\$ (22)	\$ (22)	\$ (29)	\$ (30)	\$ (23)	\$ (4)	\$ 23	\$ 16	\$ 5

Ten-year financial summary

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Property, plant & equipment (in millions)										
Property, plant & equipment in service	\$2 446	\$1 955	\$1 691	\$1 686	\$1 415	\$1 362	\$1 018	\$ 960	\$ 875	\$ 808
Construction in progress	48	366	408	320	323	182	303	228	198	152
Property, plant & equipment, gross	2 494	2 321	2 099	2 006	1 738	1 544	1 321	1 188	1 073	960
Accumulated depreciation	(561)	(505)	(456)	(419)	(384)	(347)	(312)	(285)	(262)	(242)
Property, plant & equipment, net	\$1 933	\$1 816	\$1 643	\$1 587	\$1 354	\$1 197	\$1 009	\$ 903	\$ 811	\$ 718
Growth over prior year (%)	6.44	10.53	3.53	17.21	13.12	18.63	11.74	11.34	12.95	21.08
Capital expenditures (\$)	187	231	232	294	231	226	137	120	120	147
Sources & uses of cash (in millions)										
Cash from operations	\$ 347	\$ 230	\$ 82	\$ 172	\$ 133	\$ 111	\$ 55	\$ 104	\$ 84	\$ 66
Debt Servicing	(432)	(246)	(238)	(212)	(164)	(168)	(90)	(97)	(83)	(70)
Capital expenditures, net of interest capitalized	(85)	(16)	(156)	(40)	(31)	(57)	(35)	7	1	(4)
Financing	(179)	(188)	(197)	(259)	(207)	(208)	(118)	(121)	(123)	(150)
Increase (decrease) in cash	\$ -	\$ 54	\$ (101)	\$ (6)	\$ 149	\$ (22)	\$ (95)	\$ (13)	\$ 12	\$ 15
Finance charges as a per cent of revenue (%)	42.04	35.53	38.43	34.05	32.53	28.67	20.82	18.72	20.53	16.35

Natural gas utilities statements of income

(in millions)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue	\$344	\$382	\$372	\$335	\$323	\$245	\$205	\$186	\$159	\$145
Costs and expenses										
Gas	209	240	236	236	210	145	114	106	100	80
Operating, maintenance and administration	70	69	64	59	60	51	40	36	31	28
Depreciation	25	20	14	12	12	12	11	10	9	8
	<u>304</u>	<u>329</u>	<u>314</u>	<u>307</u>	<u>282</u>	<u>208</u>	<u>165</u>	<u>152</u>	<u>140</u>	<u>116</u>
Income before finance charges	40	53	58	28	41	37	40	34	19	29
Finance charges	31	30	26	19	14	14	15	15	14	12
Net income	\$ 9	\$ 23	\$ 32	\$ 9	\$ 27	\$ 23	\$ 25	\$ 19	\$ 5	\$ 17

Ten-year financial summary

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Property, plant & equipment (in millions)										
Property, plant & equipment in service	\$783	\$684	\$611	\$532	\$469	\$428	\$412	\$390	\$372	\$349
Construction in progress	8	7	9	9	6	8	3	2	—	5
Property, plant & equipment, gross	771	691	620	541	475	436	415	392	372	354
Accumulated depreciation	(229)	(207)	(188)	(175)	(160)	(148)	(136)	(126)	(116)	(108)
Property, plant & equipment, net	<u>\$ 542</u>	<u>\$ 484</u>	<u>\$ 432</u>	<u>\$ 366</u>	<u>\$ 315</u>	<u>\$ 288</u>	<u>\$ 279</u>	<u>\$ 266</u>	<u>\$ 256</u>	<u>\$ 246</u>
Growth over prior year (%)	11.98	12.04	18.03	16.19	9.38	3.23	4.89	3.91	4.07	5.13
Capital expenditures (\$)	83	72	75	54	41	22	23	21	19	20
Sources & uses of cash (in millions)										
Cash from operations	\$ 59	\$ 73	\$ 72	\$ 28	\$ 47	\$ 30	\$ 48	\$ 35	\$ 24	\$ 25
Debt servicing	(71)	(41)	(41)	(37)	(25)	(36)	(33)	(31)	(23)	(27)
	(12)	32	31	(9)	22	(6)	15	4	1	(2)
Capital expenditures, net of interest capitalized	(81)	(71)	(74)	(58)	(40)	(22)	(22)	(3)	—	(4)
Financing	74	69	29	72	27	23	—	—	1	8
Increase (decrease) in cash	<u>\$ (19)</u>	<u>\$ 30</u>	<u>\$ (14)</u>	<u>\$ 5</u>	<u>\$ 9</u>	<u>\$ (5)</u>	<u>\$ (7)</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 2</u>
Finance charges as a per cent of revenue (%) ...	9.01	7.85	6.99	5.67	4.33	5.71	7.32	8.06	8.81	7.64

Board of Directors

(at December 31, 1986)



Hon. Eric A. Bernston,
Minister Responsible
and Vice-Chairman, Carievale



* Donald Stankov, CA, Chairman,
Regina
President, Thyssen Mining
Construction of Canada Ltd.



† Alfred E. Bechard, Sedley
Farmer



*† Wally Blaisdell, APR, Regina
President
Markets Plus Inc.



* Barry D. Bridges, Estevan
Partner
McLellan, Cundall and Bridges,
law firm



*† B. Ross Giles, CA, Regina
General Manager
Degelman Industries Ltd.



*† Edward A. Laurence, Yorkton
President
Laurence Investments Ltd.



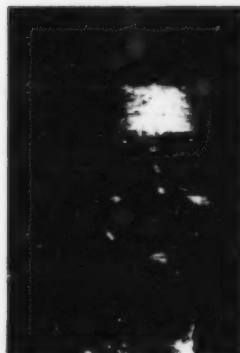
‡ Monty N. Manning,
North Battleford
President
Manning Mercury Sales Ltd.



† F. A. (Dan) Meyers, Saskatoon
President
Meyers Auto and Industry
Limited



‡ Patricia Y. Olynik, Moose Jaw
Homemaker



‡ Laura Smith, Pathlow
Farmer



*† Glenn R. Thorpe, Yorkton
President
Tower Line Contractors Ltd.

* Executive Committee

† Finance Committee

‡ Audit Committee

Corporate executive

(at December 31, 1986)

E. Bruce Campbell, P. Eng.
President*

Oscar W. Hanson, P. Eng.
Senior Vice-President
Customer and Corporate Services

R. G. (Bob) Lawrence, P. Eng.
Senior Vice-President
Operations

Fred R. Bates
Vice-President
Customer Services

J. Barrie Hodgson
Vice-President
Public Affairs

Harvey Jim, CA, P. Eng.
Vice-President
Finance

Virgil H. Nelson, P. Eng.
Vice-President
Regulatory Affairs and
Strategic Planning

G. Keith Rever, P. Eng.
Vice-President
Electric Operations

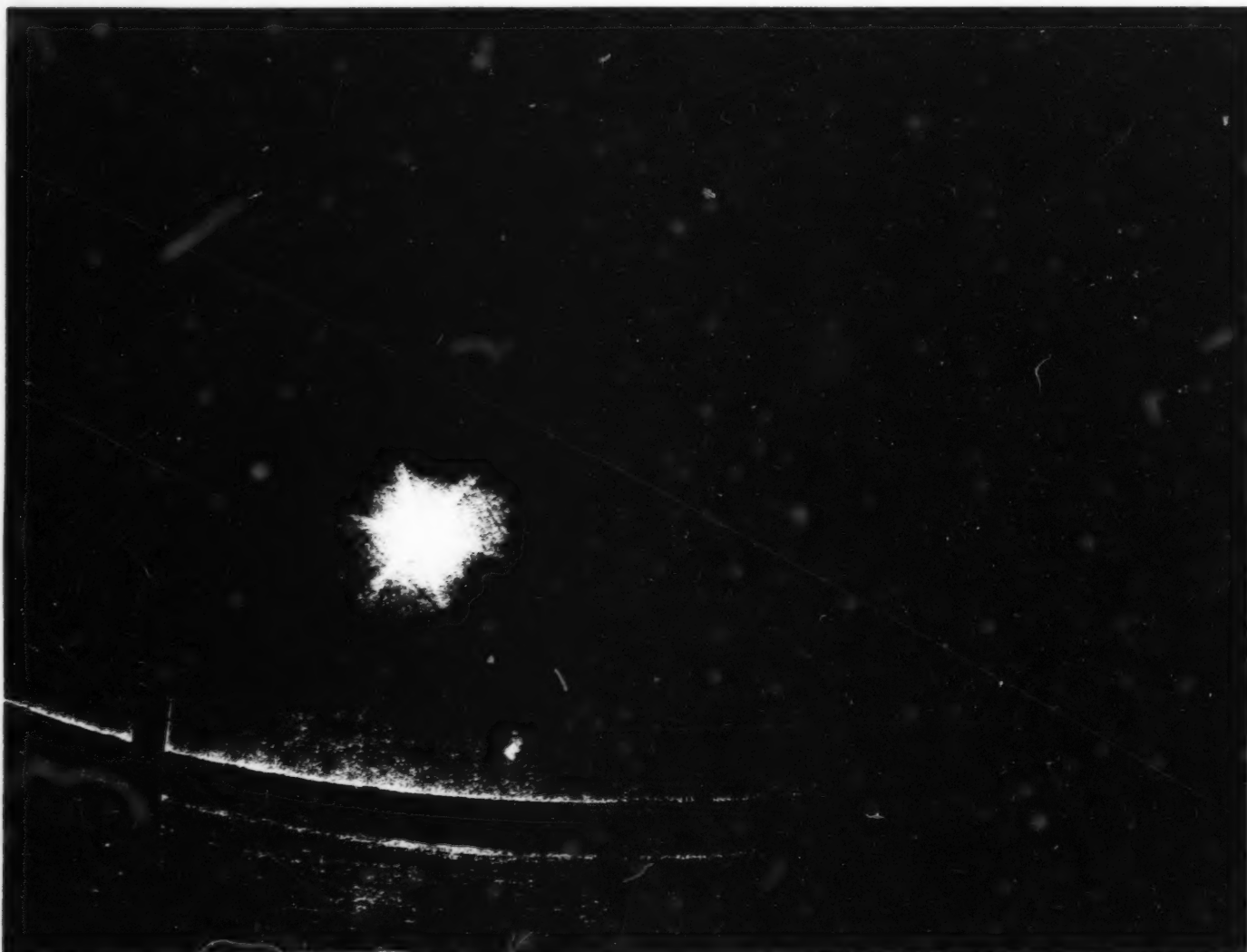
F. D. (Fin) Roberts
Acting Vice-President
Human Resources

E. Roy Smith, P. Eng.
Chief Engineer
Operations

Barry A. Steuart, P. Eng.
Vice-President
Gas Operations

Katherine D. Wellman, QC
General Counsel and Secretary

*Bruce Campbell retired
in January 1987;
George D. Hill, QC, became
President January 5, 1987



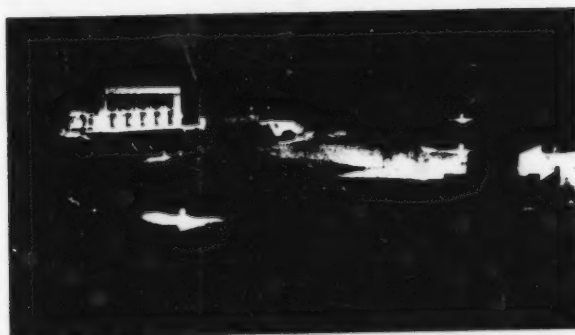
SaskPower conducts aerial surveys of high-voltage transmission lines to check the condition of the lines.



Sam Topliss, patrolman in charge, (left) conducts the survey with commercial pilot Ron Pekush.



Syl Zanyk, public liaison officer, conducts a tour of the Nipawin Interpretive Centre for a group of grade eight students from L.P. Miller Comprehensive School in Nipawin.



The Nipawin Hydroelectric Station was commissioned in 1986, and contributed to the corporation's total hydroelectric generation that was almost double the previous year's production.